Sino-American Clash of Hegemony: An Analysis of US-China Trade War

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Abstract

In economic history, 2018 will be remembered as the year that the US started a trade war with China. The longtime leading hegemony is now embarking with the rising hegemony in one of the largest trade wars in economic history to date. US-China economic ties have expanded substantially since China began reforming its economy and liberalizing its trade regime in the late 1970s. According to the INVESTOPEDIA DICTIONARY, a trade war is a side effect of protectionism that occurs when one country (Country A) raises tariffs on another country's (Country B) imports in retaliation for Country B raising tariffs on Country A's imports. As it escalates, a trade war reduces international trade. China and the United States are engaged in a trade war as each country continues to dispute tariffs placed on goods traded between them. US President Donald Trump had promised in his campaign to fix China’s longtime abuse of the broken international system and unfair practices. The economic disputes occurred before China’s entry to the World Trade Organization but former Presidents George H. W. Bush, Bill Clinton, George W. Bush, and Barack Obama all failed to solve the problems. In April 2018, the United States filed a request for consultation to the World Trade Organization in regard to concerns that China was violating intellectual property rights. In adding various tariffs, the US administration is relying partly on Section 301 of the Trade Act of 1974 to prevent what it calls unfair trade practices and theft of intellectual property. This gives the president the authority to unilaterally impose fines or other penalties on a trading partner if it is deemed to be unfairly harming US business interests, especially if it violated international trade agreements. In August 2017, the US opened a formal investigation into attacks on the intellectual property of the US and its allies, which cost the US
alone an estimated $225 - 600 billion a year in losses. The result is that the US believes Chinese laws undermine intellectual property rights by forcing foreign companies to engage in joint ventures with Chinese companies, which then gives the Chinese companies access and permission to use, improve, copy or steal their technologies. The US also raises concerns that China fails to recognize legitimate patents and copyrights, and discriminates against foreign imported technology, and that China has instituted numerous non-tariff barriers which have insulated sectors of the Chinese economy from international competition. Thus, the trade war is seen as largely focused on intellectual property in China, especially regarding technology. The trade war began in earnest in July with the US levying its first round of punitive tariffs, triggered by an investigation under Section 301 of the Trade Act into Chinese trade and intellectual property practices (https://www.scmp.com/comment/insight-opinion/article/2142491/why-us-sanctions-zte-might-turn-out-be-best-thing-chinas).

Keywords
China-US Relations, Trade War, Hegemony, Clash of Hegemony

1. Introduction
Economic and trade reforms begun in 1979 have helped transform China into one of the world’s biggest and fastest-growing economies (Grossman & Helpman, 1991). China’s economic growth and trade liberalization, including comprehensive trade commitments made upon its entry to the World Trade Organization (WTO) in 2001, have led to a sharp expansion in US-China commercial ties (https://www.hrw.org/legacy/campaigns/china-99/china-testimony0216.htm). Despite growing commercial ties, the bilateral economic relationship has become increasingly complex and often fraught with tension. From the US perspective, many trade tensions stem from China’s incomplete transition to a free market economy. While China has significantly liberalized its economic and trade regimes over the past three decades (Prieger, Bampoky, Blanco, & Liu, 2016), it continues to maintain (or has recently imposed) a number of state-directed policies that appear to distort trade and investment flows (Wu, 2014). Major areas of concern expressed by US policymakers and stakeholders include China’s alleged widespread cyber economic espionage against US firms; relatively ineffective record of enforcing intellectual property rights (IPR); discriminatory innovation policies; mixed record on implementing its World Trade Organization (WTO) obligations; extensive use of industrial policies (such as subsidies and trade and investment barriers) to promote and protect industries favored by the government; lack of transparency in trade rules and regulations; distortion economic policies that have led to overcapacity in several industries; and its large merchandise trade surplus with the United States; and interventionist policies to influence the value of its currency (https://www.everycrsreport.com/reports/RL33536.html). Many US
policymakers argue that such policies adversely impact US economic interests and have contributed to US job losses in some sectors.

China’s economic and trade conditions, policies, and acts have a significant impact on the US economy as a whole as well as specific US sectors and thus are of concern to Congress (Bloom, Draca, & Van Reenen, 2016). By comparing the ongoing trade war with similar trade conflicts in history, we reveal some major causes, with varying degrees of importance, from both economic and political perspectives. US-China trade war can principally be attributed to trade imbalances, and rivalry over global economic dominance (Terence, 2019). To another extent, US’ assumptions made on China theft of U.S intellectual property and China’s responses through the imposition of 25% tariffs on $16 billion of imports from the US have been the main causes of trade war between both superpowers. This paper provides an overview of US-China commercial ties, identifies major causes, effects or issues of contention, and provides some solutions on how to mitigate further escalation of such a “war” between both economic giants. In other words, our analysis will focus on the trade war between both countries from ideological, historical and economic perspectives, and by the way, understanding its causes, effects and providing some solutions to such a “war”.

2. Overview, Causes of US-China Trade War and Reasons for the US to Implement Tariffs Sanctions

Since the establishment of diplomatic relations between China and the United States, the economy between the two countries has been developing rapidly, both countries being characterized as good partners in terms of imports and exports. US has over a decade experienced trade war between other European countries, but never reached that with China. From an ideological perspective, US and China are viewing the world differently, embracing different cultures and therefore, are sharing different values. While the US is most valuing the Western Ideology, China is still enshrines in its own (Marxism-Communism-Nationalism). It is felt that for a long time the US government has brazenly preached unilateralism, protectionism and economic hegemony, made false accusations against many countries and regions, particularly China, intimidated other countries through economic measures such as imposing tariffs, and attempted to impose its own interests on China through extreme pressure (Bown, Jung, & Lu, 2018).

Taking from an ideological perspective, there is a kind of competition that could be observed. The ruling power, which is the US, is seeing China—the rising power as a real potential challenger (Autor, 2018).

2.1. Chronology of US-China Trade Dispute from 2018 to 2019

Here is a chronology of the major events of the trade conflict, and what led up to it since the beginning of January 2018 and the year 2019 (China Briefing), and (https://www.reuters.com/article/usa-trade-china-idCNL1N1YP2EZ):
• October 18, 2019—US tariff exclusion process for US$300 billions of Chinese imports;
• October 11, 2019—US announces “Phase 1” deal, delays tariff increase for Chinese goods;
• September 20, 2019—US releases new tariff exemption lists, which exempt over 400 Chinese goods from tariffs;
• September 19-20, 2019—US-China mid-level trade talks in Washington;
• September 13, 2019—China exempts various agricultural products from additional tariffs;
• September 11, 2019—China unveils tariff exemption list for US imports;
• September 5, 2019—China and US agree to 13th round of trade talks;
• September 2, 2019—China lodges WTO tariff case against the US;
• September 1, 2019—Tariffs come in force as scheduled;
• August 26, 2019—Liu calls for calm, Trump says talks will proceed;
• August 25, 2019—Trump, White House make contradictory statements;
• August 23, 2019—China announces US$75 billion in tariffs on US goods;
• Trump threatens tariff increases on Chinese goods;
• August 13, 2019—US and China agree to talk again in two weeks;
• August 13, 2019—US delays tariffs on certain products and removes items from the list;
• August 6, 2019—Chinese companies suspend new US agricultural product purchases;
• August 6, 2019—US declares China is a currency manipulator;
• August 1, 2019—Trump says US will impose 10 percent tariffs on another US$300 billions of Chinese goods starting September 1;
• July 30-31, 2019—Shanghai trade talks end with little progress being made;
• July 16, 2019—Trump threatens tariffs on US$325 billions of Chinese goods, new member on China’s negotiating team;
• July 9, 2019—US exempts 110 Chinese products from 25 percent tariffs, issues licenses to American Huawei suppliers;
• June 29, 2019—Trade talks to restart, ban on Huawei relaxed;
• June 26, 2019—Tentative truce reached days before G20 Summit;
• June 21, 2019—US adds another five Chinese entities to its “entity list”;
• June 19, 2019—US Tariff Exemption Process for Chinese Imports;
• June 18, 2019—Xi and Trump rekindle trade talks ahead of G20 meeting;
• June 2, 2019—China issues white paper on US-China economic relations;
• June 1: China increases tariffs on US$60 billion worth of products;
• May 31: China establishes its very own “unreliable entities” list;
• May 16: US places Huawei on its “entity list”, banning it from purchasing from US companies;
• May 13: China announces tariff hikes on US products;
• May 10: US increases tariffs from 10 percent to 25 percent;
• May 5: Trump threatens to raise tariffs on China;
• April 30-May 1: US and China hold trade talks in Beijing;
• April 10: US and China agree to establish trade deal enforcement office;
• April 3-5: US and China hold trade talks in Washington;
• April 1: China bans all types of fentanyl;
• March 31: China extends the suspension of additional tariffs on US autos and auto parts;
• March 28-29: US and China hold trade talks in Beijing after one month break;
• February 21-24: US and China hold trade talks in Washington; Trump extends tariff deadline;
• February 11-15: US and China hold trade talks in Beijing;
• February 7: Trump says he will not meet with Xi before trade deal deadline;
• January 30-31: US and China hold 2-day trade talks in Washington D.C;
• January 22: US cancels preparatory talks with China;
• January 7-9, 2019—US and China engage in 3-day trade talks in Beijing;
• July 2018: China retaliated imposing tariffs of US$ 34billion worth of US goods;
• June 2018: US placed tariffs on US imports worth of US$ 34billion;
• June 2018: China responded by imposing tariffs on US exports worth of US$ 3 billion;
• March 2018: US placed tariffs on the imports of steel (25%) and aluminum (10%);
• January 2018: US placed tariffs on Chinese solar panels and washing machines’ imports.

2.2. Causes of the Tensions and Reasons of US to Impose Tariffs

US politicians have long threatened a trade war with America’s largest trading partner in goods. A trade deficit occurs when exports are less than imports (Kimberly, 2018). In 2017, the United States exported $130 billion to China. The three largest export categories are aircraft at $16 billion; soybeans, $12 billion; and automobiles, $11 billion. US imports from China were $506 billion. Most of it is electronics, clothing, and machinery. But a lot of the imports are from US manufacturers that send raw materials to China for low-cost assembly. Once shipped back to the United States, they are considered imports. As a result, tariffs hurt US corporations as well as foreign ones. China is the world’s No.1 exporter. Its comparative advantage is that it can produce consumer goods for lower costs than other countries can. China has a lower standard of living, which allows its companies to pay lower wages. American companies can’t compete with China’s low costs, so it loses US manufacturing jobs. Americans, of course, want these goods for the lowest prices. Most are not willing to pay more for “Made in America.” Trump’s trade war with China is really about blocking, or at least slowing down, China’s technology upgrade and its expanding global economic influence. Chinese investment in the tech sector in the US has come under tougher scrutiny, and American government agencies are put on high alert.
against Chinese efforts in industrial espionage. The clause of protecting national security in the US Trade Act of 1974 is increasingly invoked to impose new tariffs on Chinese imports and to curtail China’s business mergers and acquisitions in the US (Lovely & Liang, 2018).

Recently, the United States has increased pressure on China by placing one of its top technology companies—HUAWEI on a list that some refer to as receiving the “death penalty” (https://www.vox.com/world/2018/7/6/17542482/china-trump-trade-war-tariffs). A death penalty is the sentence of execution for murder and some other capital crimes (serious crimes, especially murder, which are punishable by death). The capital offenses include espionage, treason, and death resulting from aircraft hijacking (https://definitions.uslegal.com/d/death-penalty-law/). As far as HUAWEI is concerned, the administration has accused the Company of spying on behalf of Beijing, mainly for its own national security and to steal American intellectual property. This sentence therefore prohibits Huawei from buying parts from US companies without federal government approval. Since Huawei is reliant on US suppliers for parts like chips, it could prove a major blow to the Chinese firm. Huawei, unsurprisingly, is unhappy about the decision, saying in a statement that America’s “unreasonable restrictions will infringe upon Huawei’s rights and raise other serious legal issues.” (https://www.vox.com/2019/5/16/18627471/trump-china-trade-war-huawei-xi). Thus, the decision by the United States to impose tariffs on all Chinese products and put smartphone maker Huawei on a trade blacklist that could choke off vital components has severely damaged the fragile trust between the two countries, forcing China to re-examine the entire bilateral economic relationship to protect itself. Besides, the ZTE incident can also be mention amongst US sanctions. In fact, ZTE was self-inflicted because it flouted an embargo on US components sold to Iran and then tried to cover up the wrongdoing (https://www.scmp.com/comment/insight-opinion/article/2142491/why-us-sanctions-zte-might-turn-out-be-best-thing-chinas). In April 2018, after the company failed to properly reprimand the employees involved, the US Department of Commerce banned US companies (semiconductors) from exporting to ZTE for seven years. This incident thus came at a time of increased trade tensions between the US and China. The escalation of US trade tariffs and the Huawei blacklisting have also reinforced Beijing’s long-standing belief that it has to rely on itself for key technologies and resources (ECB, 2018).

3. US-China Trade War Effects: Bilateral and Multilateral
3.1. Effects on Both Countries—Bilateral Effects

As trade talks stall and the two superpowers further entrench their positions, a long road remains ahead. The results for now are somewhat of a mixed bag: the US is ahead in some ways, while China has an advantage in others. Ultimately, though, everyone pays a price (Liadze, 2018), and
In fact, both economies are showing signs of weakness in recent weeks but China’s appears to be slowing at a faster pace. The US-China trade war resulted in billions of dollars of losses for both sides in 2018, hitting industries including autos, technology—and above all, agriculture. Broad pain from trade tariffs outlined by several economists shows that, while specialized industries including US soybean crushing benefited from the dispute, it had an overall detrimental impact on both of the world’s two largest economies (Vogel, 2018). The US and Chinese economies each lose about $2.9 billion annually due to Beijing’s tariffs on soybeans, corn, wheat and sorghum alone, said Purdue University agricultural economist Wally Tyner. The losses may give US President Donald Trump and his Chinese counterpart, Xi Jinping, motivation to resolve their trade differences before a March 2 deadline, although talks between the economic superpowers could still devolve.

Concerning US and China exchange new blows in trade war, we strongly believe that disrupted agricultural trade is hurting both sides particularly hard because China is the world’s biggest soybean importer and last year relied on the United States for $12 billion worth of the oil seed. Taking as example that China has mostly been buying soy from Brazil since imposing a 25 per cent tariff on American soybeans in July in retaliation for US tariffs on Chinese goods. US soybean exports to China, the world’s top buyer, have plummeted during the bitter bilateral dispute, with swelling supplies sending prices to near-decade lows.

China has therefore mostly been buying soy from Brazil since imposing a 25 percent tariff on American soybeans in July in retaliation for US tariffs on Chinese goods. The surge in demand pushed Brazilian soy premiums to a record over US soy futures in Chicago, in an example of the trade war reducing sales for US exporters and raising costs for Chinese importers. Speaking of this trade war effect between both side, Tyner said: “It’s something that’s crying for a resolution. It’s a lose-lose for both the United States and China.” For both countries, this war will impact their income, therefore, lead to negative effects on GDP.

3.2. Effects of US-China Trade War on Other Countries—Multilateral

Hostility between the US and China is a threat to global peace and prosperity (Erken, Every, & Giesbergen, 2018). Outsiders cannot halt this conflict. But they are not helpless. If the big powers stand outside the multilateral trading system, others can step in.

The war between both economic powerhouses will not only hurt them, but
and also affect the global economy. The trade war cast a long shadow over the Asia-Pacific Economic Cooperation forum in Papua New Guinea in November, resulting in the leaders failing for the first time to issue a joint communique. And as the China-US conflict has rolled on, it has spilled over into a broader strategic concern, one some analysts have described as the start of a new cold war.

However, these tensions could be seen as an advantage to some. It is true that American and Chinese industries will be affected, but it is not clear how much damage individual industries will suffer, as it depends on prices, the status of production, etc. of other exporting countries (Yu, 2014). On the other hand, third countries to which places of production have been transferred from the US or China will get the benefits. However, of all export industries, the (US) agricultural industry will suffer a major setback, because it cannot move its place of production. Apart from products which only the other party in the trade war can supply, disadvantages created for consumers in the importing country are limited compared with the case where tariffs on imports from countries all around the world are raised because they can find other sources of supply.

4. Road to Best Mitigate the Escalation of US-China Trade War

It’s sometimes said that “世界上没有什么不可以解决的问题” (To every problem its solution). Or as proverb tells us that big problems need big solutions, the US-China trade war is not an exception. Although many business leaders in both countries have already called for a resolution, added to the failure of a series of trade talks—including low-level discussions in Washington in late August to yield a breakthrough; the Chinese side reportedly canceled scheduled talks in September, with US officials signaled that they would not return to the negotiating table without a concrete proposal from Beijing, and besides the recently China and the United States agreement to a 90-day ceasefire on new tariffs in their trade war at the G20 summit in Buenos Aires, allowing a reprieve after months of threats and stalled talks, we could say that, finding a common compromise and negotiations still stand as the best ways for every kind of tensions. And therefore, hope for better future in US-China commercial ties is to be expected.

As both countries trade ties are governed by WTO rules, there is need to organize appropriate round table negotiations in which both countries could try to see how to manage such a conflict. We could take the metaphor of soccer/football to break it down, in where both countries are both World Cup champions seeking for victory (World Economic Forum). They’re both there to play football but they have very different ideas… each team plays a very good game but the rules they play are designed to showcase different skill sets. As football has its rules, so does trade ties. As both countries are playing in the same field with WTO as regulator, redefining each party’s rights and obligations and as far as Trade relations are concerned, trying to find common Trade Agreement, where there will be more liberal trade, flows could pave the way to mitigate and avoid a further escalation of tensions.
To another extent, we could regard the US-China trade war as a fight for supremacy picked by the US with China taking up the gauntlet. Or as in *The Thucydides Trap* when one great power threatens to displace another, war is almost always the resulting. As this trade war between both countries seems to be more the results of fight for supremacy, to avoid it to escalate to an hundred (100%) per cent war, Talks and round-tables could be taken where countries could decide to have no more an unilateral world (US longtime see as Number one Power), but a bipolar one, where both US and China could be considered as Decisions makers.

5. Conclusion

In contrast to the situation after the Great Depression where many countries slapped higher tariffs on goods imported from the rest of the world, only the US and China have hit each other with high tariffs in this recent trade war. In this respect, the damage caused by the US-China trade row to the world economy is not as serious as that caused by the trade war after the Great Depression ([https://www.thebalance.com/trade-wars-definition-how-it-affects-you-4159973](https://www.thebalance.com/trade-wars-definition-how-it-affects-you-4159973)). A free trade agreement (FTA) is designed to mutually reduce tariffs between two or more countries. In contrast to this, the US and China have raised tariffs on each other’s goods, as if they had entered into an “anti-FTA,” thanks to which third countries can export their goods to them with tariffs on their exports remaining relatively low. The dispute between the US and China over soybeans has indirectly benefited Brazil, while that over beef, Australia, and that over automobiles, Japan.

The most to be worried about is the “big change”, or “the global Clash of Civilizations” the world is about to experience. Both countries see themselves as exceptional: the US sees itself as “City upon the Hill” that has a mission to spread Democracy and individual Freedom worldwide, if necessary by force of arms; with a 5000-year-old Civilization, China believes that it is the “Middle Kingdom” that naturally sits at the apex of the regional and international order. Moreover, due to the US, longtime being considered as the “Number One Country” in many areas, the Trump Administration is facing the world’s bigger challenge ever experienced before. Trump is more concerned about this quite rise. Those concerns include US complaints about Chinese intellectual property theft and industrial subsidies, centered on Beijing’s state-backed “Made in China 2025” initiative, a program to turn China into a leader in a range of advanced technologies (Wei, Xie, & Zhang, 2017).

Thucydides has predicted such a huge challenge in *The Peloponnesian war* (Thucydides, 2017), in which he analyzes the relation between Sparta vs. Athens; where Sparta is seen as the dominating power but with weakness and Athens as the rising country, which at the end wins the War on Sparta. As we have mentioned above, this is a war of hegemony, as it is more difficult for a longtime hegemony country to view his leadership slowly be taken by a subordinate country.

Given the fact that from the latest press release, China is considered as the
bigger “Space country” to be the first to discover “the hidden part of the Moon”, this situation could be seen as a shock or a crash experienced by the international world in this early 2019. Nowadays, China is no more a “copy paste Country” (König, Song, Storesletten, & Zilibotti, 2017) as the European world used to call her, but a “country with Innovations”. In this sense, Napoleon’s (1817) Statement thus finds their meaning, when he stated: “China is a sleeping Lion, and when she awakes, the World will shake!” (https://www.telegraph.co.uk/news/worldnews/asia/china/8796486/Why-China-wont-conquer-the-world.html). From this discovery of the “hidden part of the Moon” and coupled with the country’s economy growth, military and scientific potential, we could say that the world has already begun shaking. Here the question to raise is: can America and China really escape the Thucydides Trap?

**Limitation of Research**

We mainly focused on the trade dispute that has prevailed so far between the two economic superpowers, namely China and the United States. Besides, a special emphasis was also put on their clash of hegemony. What has been observed is that the trade confrontation between Beijing and Washington is a battle for world hegemony. As a result, after thirty years of moving towards a global single market governed by World Trade Organization (WTO) rules, the foundations of the international order are experiencing a major upheaval. Thus, are the United States ready to welcome this change? Will they accept find themselves number two? How far is China capable of “Making China Again” by rejuvenating its nation?

**Conflicts of Interest**

The author declares no conflicts of interest regarding the publication of this paper.

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Dictionary

INVESTOPEDIA DICTIONARY: what is trade war?