

IRSTI 06.52.41
UDC 330

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THE IMPACT OF THE US–CHINA TRADE ECONOMIC RELATIONS ON INTERNATIONAL MARKETS

Abstract

The given article is devoted to urgent trade and economic issues between the United States of America and China. In particular, the urgent problems of the trade war between the United States of America and China, as two of the most powerful economies, were studied in the research. In this sense, this trade war has the real significant impact on international trade process and international markets functioning. Primarily, the ‘trade war’ concept is understood as a situation when the participating countries, involved in international trade, try to reduce the import of competitive goods by tariffs, quotas and other import restrictions while expanding their exports. This is also a result of protectionism, creating serious problems for imported goods and an imports and exports imbalance. This study identifies advantages and disadvantages for both countries based on economic methodologies and analytical tools. The main research approach to this article is based on a comparative analysis of recent trends in macroeconomic growth, political inequality and social problems between the United States of America and China. The simulation of cause and effect, the systematic research and the expert assessment was applied. In addition, the possible solutions and recommendations regarding how to strengthen the current economic ties between the countries concerned were considered.

Key words: trade and economic relations, trade war, influence, international market, tariffs, quotas, import, export, modeling, expert assessment.

Nowadays, operating in conditions of global economy and international trade one of the most significant factor is building good trade economic relations in a global business network. In this sense, in this article it is considered trade and economic issues between the United States of America and China. In particular, the urgent problems of the trade war between the United States of America and China, as two of the most powerful economies, were studied in the research in question. In this sense, this trade war has the real significant impact on international trade process and international markets functioning. Primarily, the ‘trade war’ concept is understood as a situation when the participating countries, involved in international trade, try to reduce the import of competitive goods by tariffs, quotas and other import restrictions while expanding their exports. A trade war is a challenge for import products in term of raising the tariff on import countries. It is also a result of protectionism that happens when a country increases tariffs on another country’s imports [1]. Trade wars are usually happening when nations involved are demanding to improve imports or exports for its own country by increasing the costs of imports from a nation or nations. A trade war can grow in term of sectors and countries, even though the sectors and counties that are not initially involved at the beginning of it. Analyzing the world-historic events, it should be mentioned about the most famous trade wars. They are: Opium War, The Smoot-Hawley Tariff Act, Chicken War, The Pasta War, The Banana War [1].

The Government of the United States of America has announced that it would place comprehensive tariffs on Chinese imports worth \$34 billion, such as aircraft parts and medical equipment. Chinese goods with the new tariff mark will now face a punishing border tax of 25% when imported into the U.S. The main purpose of this method is to make Chinese products knock out by making them more expensive for United States of America consumers and businesses. When Chinese products unexpectedly become more expensive, customers will purchase the same products from various sources which may cause China to lose their money. China immediately accused the United States of America of launching “the biggest trade war in economic history to date” and replied by placing tariffs

of 25 per cent on the United States of America \$ 34 billion goods, including automobiles, soybeans and lobsters [2].

These tariffs were imposed by the United States of America government when it discovered China’s most contentious trade practices. The new trade walls in the United States of America was intended to penalize China for doing activities such as forcing multinational companies to hand their most important technology over to Chinese businesses-many of which are state-owned in exchange for market access. In two weeks, the United States of America is set to raise border taxes on Chinese goods worth an estimated \$16 billion. Trump said he is going to impose duties another Chinese product worth \$500 billion, based on how China responds to its tariffs. The first round of tariffs against each other for both the United States of America and China were intended to sting deeply.

The United States of America’s aims are to attack Chinese high-tech goods and place economic pressure on Beijing’s ‘Made in China 2025’ initiative plan to turn China into a multinational manufacturing powerhouse. And China has intentionally targeted the agricultural exports of United States of America like soybeans that can impact the economic stability and occupation of United States of America citizens. Also, 2018 midterm election in the United States of America is near and the United States of America President has to try for that election with his best practice on economic growth of the US. When two countries make one-off attacks on the economies of each other, it is not a huge deal. But if the tit-for-tat persists, with each country gradually imposing tariffs on each other, then you have a trade war [2]. China and the United States of America have long been top trading partners but are now become rival for the geopolitical sector.

In 2015, China outstripped Canada as the largest trading partner in the United States, boasting nearly \$500 billion in total imports and exports, about 15% of overall United States of America trade. On the other hand, the United States has been China’s biggest trading partner since the 1990s, taking over Hong Kong as Chinese merchandise’s largest importer in 1998.

Although trade relations between the two economic powerhouses were not always smooth, they changed dramatically, when Washington levied the first round of tariffs on Chinese goods at \$34 billion, leading Beijing to instantly retaliate. If the United States of America President’ s threats throughout May and June are to be taken seriously, approximately a third of Chinese imports into the United States could be hit by tariffs in the months ahead.

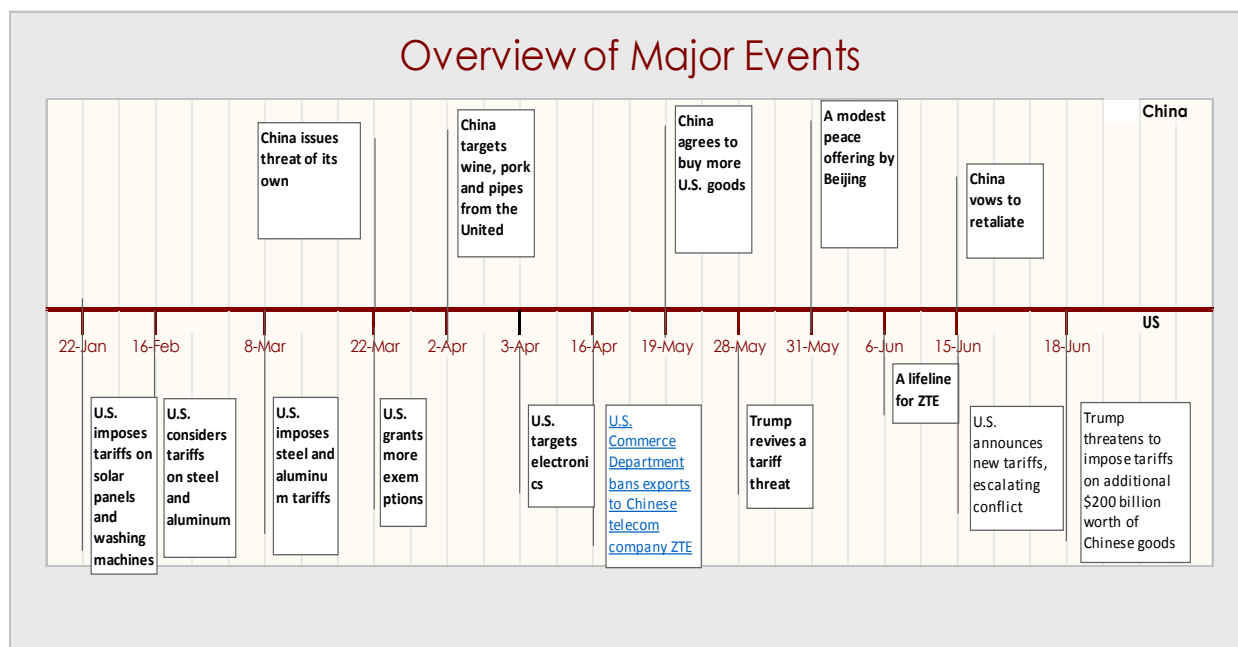


Figure 1 – Overview of Major the US–China Trade Economic Events, 2018

Note – Source: Compiled on the base of [2–5].

The time was “quite important”, – said Mary Lovely, a senior non-resident fellow at Syracuse University’s Peterson Center for International Affairs and Globalization. “[This period] represents a fundamental retreat by the leader of the global trading system,” – she said, “It will be seen as a turning point” [3]. Thus, this confirms the trade economic issues considered in the paper are of great significance for global economic environment. Below, it is presented the analysis of the current US–China trade economic relations, as well as the analysis of consequences and impact on businesses.

Analysis of the current US–China trade economic relations. Among the main features of the United States of America and China trade economic relations it should be mentioned the followings:

- ◆ the \$34 billion in tariffs is not that big, both economies assume they can withstand the negative impact in the short term;
- ◆ the current trade dispute between the United States of America and China applies to two large sets of problems. The first of these is the lack of tariff reciprocity, market access and investment;
- ◆ the problem is that there is a second set of issues, including “Made in China 2025” plan, concerning technology transfer and high-tech industrial policy;
- ◆ the United States of America and China are at the beginning of a trade war – and no-one knows how bad it might get;
- ◆ ‘Tit-for-tat’.

Imposing a tariff on Chinese products can affect the price for United States of America consumers. Technology products such as semi-conductor chips that are manufactured in China can be seen as mobile phones, computers every day. So, the impact of that raw material production in China can emerge. This might also have a knock-on effect on many other products. China wants to implement their “Made in China 2025” policy, so, the United States of America wants to target the products that are produced for that purpose. China has hit the following sectors in retaliation for United States of America moves:

- ◆ American agriculture – hitting American farmers and ranchers, on which United States of America President Trump relies on a political vote bank. About 91% of the 545 items on which China charges a tariff come from the agricultural sector;
- ◆ the automotive sector-companies like Tesla and Chrysler producing in the United States of America and their goods going to China would be impacted;
- ◆ coal, medical products; petroleum (marginally) [4].

For Chinese manufacturers, tariff changes can be more serious, deflationary and expensive, not excluding job cuts, the possible closure and liquidation of industries and factories, as well as the inevitable decline in income of Chinese workers. Whereas higher tariffs mean a commensurate increase in product prices for American consumers, which is a small price in a high-income economy. The United States of America policy’s pressure tactics have angered many Chinese, and some suggest China should use currency devaluation to fend off the impact of higher tariffs. Others propose that China should sell its holdings of United States of America Treasury bonds to retaliate. China spends billions of dollars each year importing medical devices made by GE and these products cannot be substituted, no matter what tariffs are imposed. Tit-for-tat retaliation may allow frustrated Chinese to vent their anger, but economic costs will dwarf any short-term political gains over time.

Finally, China’s most powerful weapon against the United States of America trade protectionism is its growing domestic market. Global businesses and capital are attracted to places with economic growth and transparent, enforceable laws. The United States of America President, Trump, has cut taxes and engineered an economic boom, and his ‘America first’ policy is aimed at bringing businesses and capital back to America.

Analysis of consequences and impact on businesses. In this sense, it should be divided the issues and their impacts on global economy dealing with European Union firstly and then China.

1. Key Points of the United States of America and the EU Trade War. The Government of the United States of America initially agreed to suspend tariffs against the EU until 1 June 2018. They requested the partner of the United States of America to slash the 10 per cent tariff on U.S. automobiles, requested the EU to create quotas for its steel exports. In May, 2018, the United States of America government announced to impose the tariffs on Canada, Mexico and the EU. Some experts said that this move can affect the supply chains of the United States of America aluminum industry. Germany has also called for an end to the EU’s 10 per cent tariff on U.S. automotive imports. In return, the US needs to think about imposing a tax on European car imports. The EU levied tariffs on 3.2 billion

dollars of US goods on June 22. It limited imports such as motorbikes and orange juice which could have an impact on political standing trumps. As a result of the signing of the largest bilateral trade agreement of June 17 between the EU and Japan, in total, for goods totaling about \$ 152 billion, tariffs will be reduced or completely canceled. The EU also revised the terms of the trade deal with Mexico, which resulted in a reduction in tariffs for almost the entire commodity turnover between the parties to the agreement [5].

In order to support American farmers who have lost their position in the Chinese market as a result of trade wars, as well as strategically reduce dependence on Russian LNG, the EU decided to increase imports of soybeans and liquefied natural gas from the United States of America. The parties also agreed to postpone the introduction of new ones and revise current tariffs for non-ferrous metallurgy products such as aluminum and steel.

2. Key Points of the United States of America and China Trade War. China responded the United States of America announcement upon the issuing process of a revised \$50 billion list for United States of America goods. Actually, tariff-exposed jobs and careers are becoming double as likely to fall in countries that voted for the voting winner of the Republican party, Donald Trump in last election period 2016 than in countries won by Hilary Clinton from Democrat Party.

The World Trade Organization governed that the United States didn't have a case in imposing the tariff about levying tariffs and quotas for imported Chinese solar panels and washing machines. Therefore, China raised the complaint with the WTO in August 2018 as China is a world leader in solar equipment manufacturing.

In March 2018, although the United States of America requested China to create a plan for reducing \$375 billion United States of America trade deficit by \$100 billion. But it is a failed process about this idea. Economic reform plan of China is intended to reduce its reliance on exports. Trump administration announced it would impose tariffs on \$60 billion of imports from China [2]. It is certain to limit United States of America technology transfers to Chinese companies. In fact, China demands the industries and firms that want to sell products in China to share their trade experiences and tricks with Chinese companies. How China response to United States of America announcement is to charge tariffs on \$3 billion in United States of America fruit, port, recycled aluminum and steel pipes.

The United States of America administration focused on three requests with Chinese trade sectors officials to reduce its tariffs on United States of America automobiles and requests China to import more United States of America semiconductors. The last demand is to get great access to China's financial sector by American companies [3].

In April 2018, the United States of America announced again tariffs charged on \$50 billion in Chinese imported electronics, aerospace, and machinery. Hours later, China responded by declaring 25 per cent tariffs on US\$ 50 billion in shipments to China from the United States of America. It will not come into practice automatically, however. The tariffs hit 106 goods strategically by China. As well, China penalized two other American exports: sorghum and Boeing aircraft. It attacked sectors in states that backed Trump in the 2016 election. After that, China denied all United States of America soybean import contacts and China can replace Brazil beans instead of United States of America beans. On April 6, 2018, United States of America imposes tariffs on \$100 billion more of Chinese imports. It would cover just one-third of the United States of America imports from China. If China retaliates, that would impose tariffs on all United States of America exports to China [4].

The trade negotiations had broken down according to the China declaration. China's "Made in China 2025" initiative, which focuses on subsidizing 10 sectors of industry priority areas such as aerospace, software development, and robotics, has been the main subject of China's demand for the United States of America to stop subsidizing. China also plans to be the world's primary artificial intelligence center by 2030. Later that day, the President of China, Xi, claimed that he would reduce tariffs on imported automobiles. While it helped the United States of America government to save face, it would not have a huge effect on trade [5].

Most automakers find it is cheaper to build in China, regardless of tariffs. Other promises, such as reducing restrictions on foreign direct investment, are not new.

In May 2018, the following five demands rose out from the United States of America to China:

- 1) End subsidies to tech companies;
- 2) Stop stealing United States of America intellectual property;
- 3) Cut tariffs on United States of America goods by 2020;
- 4) Open China to more United States of America investment;
- 5) By 2020 reduce the trade imbalance by \$200 billion [5].

China’s economic reform strategy is becoming less dependent on exports. On the one hand, the main goal of China today is to become a technological leader, in this regard, it is unlikely that the first two requirements will be met by China, on the other hand, China needs to reduce the trade deficit. In addition, China plans to purchase more goods from the United States of America, and on May 15, China decides to abolish import duties on pork from the United States of America.

This agreement follows an ideology of mercantilism that encourages specific industries that are important for the political purposes of the political leaders. Pork farmers appear to vote Democratic, which is why China has based targeted on their exports. Telecom sector is part of China’s development policy, which is one of the reasons Trump’s tariffs were introduced. The other is that the company violated US sanctions against Iran and North Korea.

Further, the United States of America declared about a final list of products to receive tariffs relating with \$50 billion in imports from China and announce also investment restrictions on Chinese acquisition of United States of America technology at the end of June. By that time the United States of America tariffs got into effect from \$34 billion of Chinese imports on United States of America autos. It is a real threat to the sector of American-made cars. Vice, Versa China will also tax tariffs on United States of America agricultural exports. Midwest farmers could be stuck with excess produce and livestock. And the President of the United States of America offered \$12 billion in subsidies to American farmers [4].

So, United States of America might impose 10 percent tariffs on other \$200 billion Chinese imports. The administration wouldn’t go into effect until after public hearings scheduled for August 20–23. The tariffs would increase costs on a variety of consumer products, including food, luggage, shoes, handbags, chairs, clothes, and mattresses. If China strikes back, Trump will add tariffs until all Chinese imports amounting to \$500 billion are affected. As ordinary, that could endanger shale oil exports, China contributes 20 per cent of the United States of America oil exports.

The United States of America government subsequently imposed a 25 per cent tax on \$16 billion Chinese products. It also came into practice. This has been linked on construction machineries such as tractors, rubber tubing and chemicals. In addition, China imposed a 25 per cent tariff on US\$ 16 billion worth of goods, including cars and gas. It came into effect on the same day [5].

Thus, all these facts of trade and economic relations between the USA and China clearly show the big tension between these two countries that absolutely could be characterized as a ‘trade war’ having a huge impact not only on their economies but on the whole global business environment as well.

Solutions and Recommendations. In the framework of solutions and recommendations provided, first of all, it should be reduced the impact for the first-round tariffs. Figure 2 presents estimates of the first-round tariff effect.

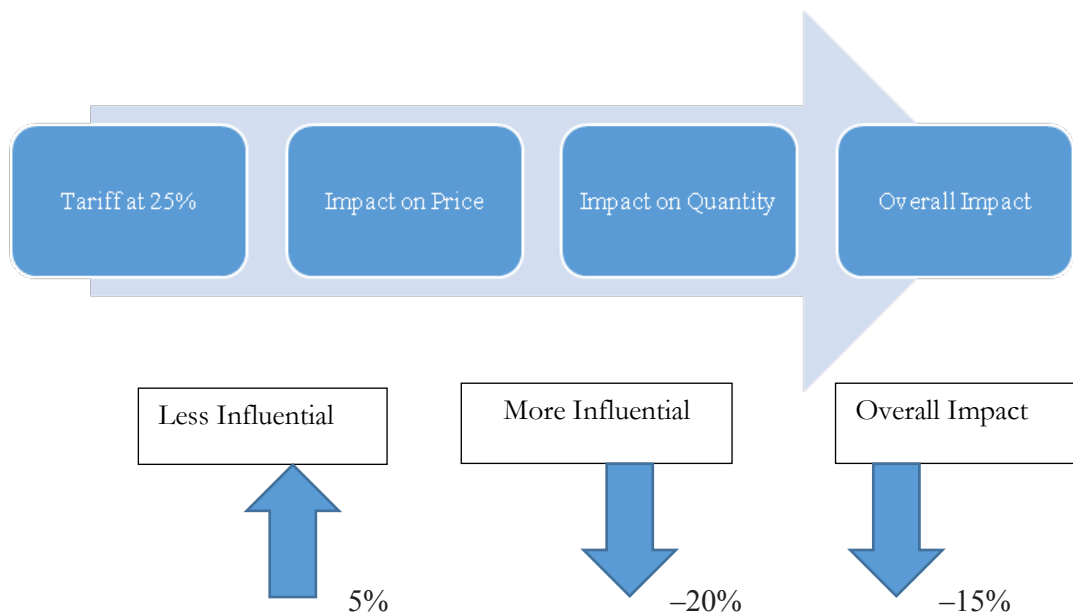


Figure 2 – Estimation of the impact of the first round tariff

Note – Source: Compiled by authors on the base of [2–6].

The pass-through tariff rate varies from 10 to 30%, which is normally. By taking the mid-point of 20% for calculation. By increasing the 5% price for the targeted products in both China and the United States of America multiplying the tariff pass-through rate by 20% and the tariff rate 25%. Taking 4 for the midpoint of estimation, while the average estimate is between 2 and 6. To reduce 4% in demand the price 1% will change (Table 1).

Table 1 – Expert Estimation of pass-through tariff rate and demand elasticity

	Source of the Study	Estimates
Tariff pass-through rate	Ludema and Yu (2016)	13%
	Hayakawa and Ito (2015)	20% to 30%
Price elasticity of demand	Baier and Bergstrand (2011)	2 to 4
	Head and Ries (2012)	6.88
	Bas et al. (2017)	4 to 6

Note – Source: Compiled by authors on the base of [2; 4; 6].

Recommendations for the United States. The United States of America should prepare for backing down the trade war when enough consumers and business are hurt and complain as this applies to economic performance. The tariffs are certain to hurt a variety of sectors although we cannot predict the exact time with evidence economic data.

The impose in tariff is impacting a number of sectors which can take a short period of time to show as the data of economic. When the analysis of economic data comes out the administration might be forced for pulling back.

The United States of America also have to support businesses which are operating in China to move back to the US. The United States of America must find the alternate Countries to work instead of China and also make to attract others countries as the second option of multilateral support.

Recommendations for China. It is most likely that China, as a leverage in negotiations and a response to the actions of the United States of America, will be easier than their opponent, due to differences in the internal institutional structures of these countries.

The first possible measure is tariff delays. Beijing can order customs officials to update the requirements for inspection to avoid expensive bottlenecks. While not a novel technique in the case of trade wars – France allowed all Japanese electronics to reach Poitiers in 1982 through a single understaffed customs house- Chinese officials have ample knowledge in doing it, having obstructed it. If the trade war ramps up, policymakers may add more restrictions and endanger a broader variety of goods.

A second group is the unfair implementation of administrative laws to position prices on the mainland for American enterprises with manufacturing facilities or retail outlets. Beijing has used tax audits, probes into the graft routine protection and health checks to disrupt the operations of multinational companies in political conflicts.

The third category concerns the criteria for licensing. Licenses are required to conduct most kinds of business in China, and the procedure to obtain one is properly defined by Regulators that withdraw or postpone the issuance of licenses to United States of America companies, a challenge for many international companies.

One final method may be unofficial boycotts of products and companies of the United States of America. For the United States of America, which produces and sells more goods and services that they export to the Chinese market and face a serious risk of boycotts, which can lead to significant costs for US companies, a parallel can be drawn to the 2012 conflict on the Senkaku Islands or Diaoyu Dao, Chinese officials and state-run media outlets called for a boycott of Japanese business, resulting in hundreds of stores closing. Chinese consumers can buy a Huawei mobile phone, which will lead to a reduction in iPhone revenue in Apple’s third largest market, or ignore about 3,300 Starbucks stores and instead prefer UBC coffee [6].

China’s response will not be painless, as a business can be lost to local companies based on American partners in raising or introducing tariffs, as a result of which a large number of Chinese

employees may lose their jobs. Meanwhile, if disturbances to the supply chain lead to price rises, these policies may inflict significant harm to the United States of America export sectors, businesses working on the mainland, and customers home. In addition, local Chinese substitute manufacturers, in long-term competition, will gain an advantage in the struggle for market share.

The White House will continue its tariff escalation for a while, but with specific qualitative measures alone it will obviously not be able to respond. The scope of legal and other administrative defenses intended to secure the activities and properties of international businesses in the United States, and indeed the free movement of most exports and imports presents major obstacles to regulatory interference by Chinese markets. This might, however, inevitably prove to be a detriment in the case of a trade war involving both quantitative and qualitative steps.

Tariffs and counter-tariffs mark the beginning of a trade war which has no clear end for. Consequently, the worst result will be a combination of steps and countermeasures that could have a serious negative impact on consumers and the global business market. But we can expect the best output is that when the time passes, two sides will get some sort of an agreement.

To conclude, the given article is devoted to urgent trade and economic issues between the United States of America and China. In particular, the urgent problems of the effect of trade and economic relations between the United States of America and China, as two of the strongest economies on international markets, have been studied in the given study. So here, this trade conflict has a huge practical effect on the mechanism of international exchange and on the operation of foreign markets.

It has been detected advantages and disadvantages for both countries based on economic methodologies and analytical tools. This paper's primary research approach is based on a comparative analysis of current macroeconomic development trends, political differences and social issues between China and the US. The cause and effect analysis, systematic vision, and expert assessment are also applied. In addition, the possible solutions and recommendations regarding how to strengthen the current economic ties between the countries concerned were considered.

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Аңдатпа

Мақала Америка Құрама Штаттары мен Қытай арасындағы сауда-экономикалық қатынастардың өзекті мәселелеріне арналған. Атап айтқанда, аталған зерттеуде екі ірі держава ретінде АҚШ пен Қытай арасындағы сауда-экономикалық қатынастардың халықаралық нарықтарға ықпал ету проблемалары зерттелген. Бұл мағынада бұл сауда соғысы халықаралық сауда мен халықаралық нарықтың қызметіне айтарлықтай ықпал етеді. Бастапқыда «сауда соғысы» тұжырымдамасы деп халықаралық саудаға тартылған қатысушы елдер бір уақытта өз экспортын кеңейте отырып тарифтер, квоталар мен басқа да импорттық шектеулер енгізу арқылы бәсекеге қабілетті тауарларды енгізуді қысқартуға тырысады. Бұл сондай-ақ импортталатын тауарларға айтарлықтай проблема және импорт пен экспорт арасында теңсіздік тудыратын протекционизмнің бір түрі болып табылады. Бұл зерттеуде экономикалық әдіснамалар және талдамалық құралдар негізінде екі ел үшін де артықшылықтар мен кемшіліктер анықталды. Осы мақаланың негізгі зерттеу әдіснамасы Қытайдағы және АҚШ-тағы макроэкономикалық дамудың тиісті модельдеріне, саяси айырмашылықтар мен әлеуметтік мәселелерге салыстырмалы талдау жүргізуге негізделген. Жүйелік талдау, себеп-салдар байланысын модельдеу және сараптамалық бағалау қолданылды. Бұл елдердің арасындағы ағымдағы макроэкономикалық қарым-қатынастарды жақсарту жолдары туралы ықтимал шешімдер мен ұсынымдар қарастырылды.

Тірек сөздер: сауда-экономикалық қарым-қатынастар, сауда соғысы, әсер, халықаралық нарық, тарифтер, квоталар, импорт, экспорт, модельдеу, сараптамалық бағалау.

Аннотация

Статья посвящена актуальным вопросам торгово-экономических отношений между Соединенными Штатами Америки и Китаем. В частности, в данном исследовании изучены проблемы влияния торгово-экономических отношений между США и Китаем как двумя наиболее сильными экономическими державами на международные рынки. В этом смысле торговая война оказывает существенное влияние на процессы международной торговли и функционирование международных рынков. Первоначально под концепцией «торговой войны» понималась ситуация, при которой страны-участницы, вовлеченные в международную торговлю, пытаются сократить ввоз конкурентных товаров путем введения тарифов, квот и других импортных ограничений при одновременном расширении своего экспорта. Это также является своего рода результатом протекционизма, создающим серьезные проблемы для импортируемых товаров и дисбаланс между импортом и экспортом. В данном исследовании выявлены преимущества и недостатки для обеих стран на основе экономических методологий и аналитических инструментов. Основная методология исследования данной статьи основана на проведении сравнительного анализа существующих моделей макроэкономического развития, политических различий и социальных вопросов в Китае и США. Применены моделирование причинно-следственных связей, системный анализ, экспертная оценка. Рассмотрены возможные решения и рекомендации по вопросам улучшения текущих макроэкономических отношений между данными странами.

Ключевые слова: торгово-экономические отношения, торговая война, влияние, международный рынок, тарифы, квоты, импорт, экспорт, моделирование, экспертная оценка.