

# The Redefinition of Foreign Policy of the United States since Trump's Election: The Case of Trade War with China

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## Abstract

The main aim of this text is to present economic relations between China and the US today. The election of Donald Trump in 2016, significantly redefined American trade policy toward China. Despite the first months of his presidency, which promised an efficient, long-term cooperation between Beijing and Washington, incumbent president decided to implement severe restriction on the trade with China at the beginning of 2018. However, the announced imposition of tariffs on almost all goods coming from this country could interfere with the growth of the single states and the economy of the whole country in the future. Therefore the text is aimed to investigate the dependency of selected states on the inflows of Chinese investments since 2010. Finally, it is necessary to examine the phenomenon of the trade war, which has begun in July 2018, and assess its impact on the growth of both countries.

**Keywords:** Trade War, China, USA, Trump, Florida, Louisiana, Kentucky, Foreign Policy, Global Economy

## Introduction

There are no doubts that the last presidential election in the US brought an unexpected result. Its winner, Donald J. Trump, famous multibillionaire, and celebrity, got famous during his campaign due to controversial views, which were far away from political correctness, and a sharp tongue. Taking into account only the case of multilateral economic relationships at that time, Trump has been persistently charging developing countries that are still responsible for vast part of American import of unprocessed goods. An example of this populist rhetoric can be seen in his speech at a rally in Fort Wayne, Indiana. Speaking about the balance of payment of the US, Trump accused China of “raping” his country with its trade policies. (Diamond: Trump can’t continue to allow China to rape our country).

His populist slogans such as *America First* or *Make America Great Again* found its audience, mainly among the citizens of the states with the lowest average income. Nonetheless, it is hard to say if Trump will be able to implement restrictive constraints for overseas products. On one hand, he was considered, at the Election Day, to be the successor of Reagan’s way of thinking regarding foreign affairs. On the other hand, Wynne (The Security Risks of a Trade War With China) has already presented in his articles a rich amount of data that show the protectionist side of Trump’s administration. First sanctions were imposed on Chinese goods at the beginning of 2018. According to Haas, Jacobs, and Helmore (the US imposes sanctions on China, stocking fears of trade war), the information about the continuity of restrictive policy in the statement to Beijing, appeared three months later. Blyth even described in the article for *Foreign Affairs* (Global Trumpism) his anxiety and concern related to the future of the US, writing: “The era of neoliberalism is over. The era of neonationalism has just begun.” Blyth’s words found its support, among others, in the British magazine *The Economists*, which tried to argue Trump’s fascination with authoritarian leaders such as Erdogan, Putin or Xi Jinping.

China quietly accepted the American election results, despite Trump’s aggressive rhetoric during the presidential race, where he repeated a deep unwillingness to cooperate with Beijing, this kind of reaction is understandable if we take into account the fact that from the beginning of his candidacy Trump has been downplaying the presence of the American army in Asia. For China, which is currently putting into effect the transcontinental project “Silk Road”, American passiveness in the region would be an opportunity to gain domination there. Moreover, having a well-diversified economy and a more wealthy society every year, China has become, according to deLisle, more independent from the inflows of foreign capital (Red State China? Why China (Sort of) Likes Trump). Furthermore, China is nowadays the most influential investor in Asia, and one of the economic leaders in the world.

The main assumption of this article is to present the shape of bilateral economic relationships between China and the US nowadays. Trump has been consequently trying to execute his political agenda, even though much of it seemed to be impossible to achieve in the first days after the election. One of his first strategic decisions for the future co-operation with China was choosing Terry Branstad for the position of the US ambassador in Beijing. Citing Basu: "Branstad, until the nomination well-known as the many years' governor of Iowa, has had a friendly relationship with the Chinese president, Xi Jinping, for over 30 years" (China's Xi Jinping keeps Iowa close to his heart).

The paper is structured as follows. Based on the preceding paragraphs, the focus of this article seeks: (a) to redefine the economic relationship between Washington and Beijing; (b) discuss the role of the trade exchange between China and the US; (c) offer a prediction related to the implementation of trade restraints on imported goods announced by Trump's administration; and finally (d) offer some possible impacts of a trade war on bilateral economic relations, while noting how this might affect the growth of each nation separately. The final section concludes the paper by giving some final remarks.

## **Redefinition of the American Trade Policy toward China**

With regard to the content of Trump's speeches before his election, there are no doubts that the new political approach towards China is an essential point in his international policy. According to Umehara (The Election of Donald Trump to the next President and the Response of China. In uncertainties after the unusual presidential election), Trump's declarations pertained to the imposition of high tariffs on Chinese import, and the allegations regarding artificially decreased exchange rate of the *renminbi* did not affect Chinese officials. Firstly, Trump's chances before the vote results announcement were meager. Moreover, the possible win of his counter candidate, Hilary Clinton, who has been fighting for the dispersion of American model of development all across the world for decades, could be found by Beijing as an even worse result, as reported by Tiezzi (Why China Dreads a Hilary Presidency). Tyler (Hilary Clinton, In China, Details Abuse of Women) believes that Hilary's distinct way of thinking related to the issues of equal human rights all across the world is far away from the values commonly promoted among the Chinese nation. Therefore eventual triumph of the liberal Democrats in the US could have had a negative impact on the perpetuating position of China not only on its continent, but also globally. To cite Whittel: "Clinton, who was recognized by Beijing as the natural heir of Barack Obama's administration officially declared

her support for the Pivot to Asia” (Obamacare i Pivot na Pacyfik, czyli 8 lat rządów Baracka Obamy w USA [Podsumowanie]).

Taking into consideration only the first phase of Trump’s presidency, there are some contradictions between the announced approach towards China and the reality. After the first turbulent months since Trump’s moving into the White House, his rhetoric significantly changed from the beginning of 2017. Trump, in agreement with Swaine (Chinese Views on the Trump Administration’s Asia Policy) got in touch with Xi Jinping just a few days after his election, on 8<sup>th</sup> November 2016, whereas the official congratulatory letter was sent from Beijing to Washington six days later. Xi expressed there his hope for a successful cooperation between the countries and the further development of mutual relations. Not long after that, freshly chosen Secretary of State Rex Tillerson, during his visit in the capital of China, did the same. In his speech, he referred to the words of Chinese President and emphasized that the newly-formed administration is ready for tightening bilateral collaboration in various areas.

At the beginning of December 2016 a telephone conversation between the president-elect Trump and the president of Taiwan, Tsai Ing-Wen was held. As a result, likelihood of a removal of the previously applied policy towards Taiwan and the Peoples Republic of China (“One China Policy”) appeared. That misunderstanding was ignored in the Mainland China and explained by the local state media as “a lack of experience of the new American President regarding foreign policy,” as stated in Turner’s text (The United States and China: Raptures and Realignments in Trump’s First Six Months). In the following months an improvement of mutual partnership could be observed. From time to time Trump still had some unusual performances, but their overtone was gradually becoming lighter.

In the first days of February 2017 the first longer direct talk between the leaders of the US and China took place. As its consequence, two months later an official meeting at Trump’s residence in Florida was held. Summit lasted two days (April 6–7, 2017) and was acknowledged by both sides, in agreement with Nakamura and Rauhala (the US and China end summit with 100-days plan to boost trade and co-operation), as decisive for the future development of mutual relations. Nonetheless, to cite Turner again, global political experts evaluated the expertise of American diplomacy there very critically. They concluded, indeed, that the summit was the turning point of the expected pattern and direction of cooperation between Beijing and Washington. However, China has decidedly taken a role of the leader in this competition.

As a result of the negotiations in Mar-a-Lago, according to Heatley (What’s in the US-China 100 Day Plan?), China obliged to partly open its financial sector to the inflow of the American investments in chosen areas (for instance electronic payments). Moreover, at the same time, Chinese officials declared their readiness to purchase American gas. Notwithstanding, there is no doubts that China has also

achieved its political goals. The main economic advantage for China was the removal of limits on the sale of processed poultry in the US territory. Additionally, the White House pledged to send its representation to the "One Belt, One Road" Forum which was held in May 2017 and was devoted to the development of the "New Silk Road" in coming years. In Beijing, as stated in Graceffo's text (China-US Trade the 100 days Plan, So Far (June 2017)) this decision was considered as an official acknowledgment of the project by the US and an indirect approval of the rising power of China in Asia.

The abovementioned facts gave rise to the 100 days plan, which turned out to have been the first step in the process of redefinition of the mutual relationship between the two countries. Its main principle, according to Galbraith and Patton (US-China Trade talks sputtering at the 100-day deadline) was to bolster American export to China with the expected result that the US trade deficit would decrease. Its negative value has still amounted to above \$200 billion since 2005 (Holmes, 2). Regrettably, to cite an analysis prepared by Jacob Parker, the representative of US-China Business Council in Beijing, the activities performed by the American government were insufficient to resolve this obstacle.

Therefore, the long-term consensus was elusive. In June 2017, Wilbur Ross, along with the Secretary of the Treasury, Steve Mnuchin, publicly reported their dissatisfaction in respect of Chinese reluctance in the active application of the arrangements established in Mar-a-Lago. To cite Heatley (After 100 Days and Much Hype, US-China Talks Fall Flat), Mnuchin directly demanded to equalize the rights for American enterprises which are vigorously operating in China with the Chinese ones which are successfully working on the American market. Mnuchin's speech could be recognized today as the first announcement of the introduction of the Customs Tariffs on Chinese goods imported into the US. In the following weeks, after Wilbur's and Mnuchin's speech, China stayed passive and did not seriously change its approach towards the new economic conditions agreed in Mar-a-Lago. These actions predominantly because of its grudge against the limitation of export to the US, which was acknowledged by Washington as the essential part of the redefined mutual relationships. As a consequence, a ponderable cut of the American trade deficit was not possible to achieve. Moreover, during the execution of the 100-days plan, the liberalization of the access to the Chinese financial market was not given to the extent agreed upon during negotiations.

There are no doubts that the Chinese economy has been facing a distinct transformation in the last years. The progressive approach of rapid liberalization, well-known in the case of China since 1978, is currently being replaced by the state-oriented policy of nationalization of the domestic economy. This strategy could be explained as a reaction to the significant economic slowdown which began in China in 2014. Annual growth at the level of 10% (Charting China's Economy: 10 Years Under Wu), gained by China in the first decade of the 21st century primarily due

to its accession to the World Trade Organization in 2001, has decreased in the second decade almost twofold to 6%. Nowadays, despite its open market orientation over the last 35 years, China is still a rather closed economy. Selected industries are still absolutely overwhelmed by the state. The privatization of state enterprises, liberalization of the capital markets or the full release of the *renminbi* are the main challenges for the local ruling power in the following years. Admittedly, the crucial structural reforms have been promised by the incumbent president for years (Bulloch, A Progress Report of China's Third Plenum Reform). However, the date of their implementation is not precise. The modern economic policy of China was the main point of the 3<sup>rd</sup> Plenum what took place in 2013. In the established then 13<sup>th</sup> consecutive 5-year plan, the role of the government in the development of the country remains of utmost importance.

Notwithstanding, private enterprises gained equal rights with the state ones. However, the authorities have not still decided to open up the strategic industries to foreign companies. To state in consonance with Huang (Party's third plenum pledges 'decisive role' for markets in China's economy), the crucial role in those is still being played by the state's conglomerate whose existence, according to Jakóbowski (*Dług, giełda i przedsiębiorstwa państwowe. Źródła chaosu na chińskich rynkach finansowych*), highly depend on governmental bailouts. As a consequence, it has a negative impact on their competitiveness in comparison to the global leaders in the businesses permanently closed for the inflow of foreign capital. As an example, we can present the case of the financial industry. Whether either the Chinese economy's growth has measurably slowed down (GDP Growth: World Bank) or the amount of foreign direct investments has dropped (Foreign Direct Investment: World Bank), the strategy implemented by Chinese authorities in 2013 comes across as ineffective (Bulloch, On Liberal Reform, China is at a Crossroad).

The fall of the concept of the new beginning in mutual relations between Washington and Beijing, which was shaped and promoted by the American diplomacy, emphasized its inability to successfully enforce its assumptions. The fact is that after the Mar-a-Lago summit there seemed to emerge a real opportunity for the American goods and services to break into the Chinese market. Nonetheless, reality turned out more unpredictable than the Republicans had anticipated at the beginning of Trump's office (Gillespie, US trade deficit with China and Mexico is growing). Looking back, a more balanced trade exchange with the US and a significant cut in its deficit have always been out of the Chinese interest. At the same time, the American side officially declared its support for the Chinese project of "One Belt One Road". Considering this fact, it is clear that China achieved far more through the Mar-a-Lago Summit than the US. After having obtained the American approval for the further strengthening of its position in Asia, Beijing announced to continue with an implementation of further constraints related to the domestic economic freedom.

Conforming to Yoon (Here's who wins with the new US-China trade deals), some of constraints China decided to apply until the end of 2017. As examples, it is worth to mention about the coercive limits with respect to the access to the information from abroad. Another one is related to the leeway in the Chinese market for foreigners. Currently, if foreign businesses want to maintain their past position there, they are forced to transfer developed technologies which are crucial for the up-to-date improvement of the local manufacturing industries to China. These restrictions are especially painful for the several states for whom China is the main commercial outlet. There is more about this phenomenon in the next chapter.

## The contribution of China in the trade exchange of selected States

In this part of this text, I would like to present the political and economic factors of Trump's victory during the last election. Moreover, it is necessary to explain the possible impact of tariffs restriction regarding Chinese goods on a trade exchange between selected states and China. Trump, pending his campaign, was announcing massive support for the American producers. Setter (10 poorest states in America in 2016) believes that the Republican's rhetoric, strongly rooted in the patriotic slogans, helped gaining support in 9 out of 10 states with the lowest GDP per capita in the US. The only exception was New Mexico where 48% of the entire population is represented by the Mexicans (New Mexico Population 2017).

Trump's approach convinced the older part of the American society as well. Moreover, 53% of the older part of the population (over 45 years old) believed in Trump's vision of the near future of the US. As a result, Democrats lost two key states in which they had obtained the endorsement of local inhabitants in the previous elections, namely Florida and Pennsylvania. The other states which decided to advocate Republicans instead of Democrats, in contrary to the previous election, are: Ohio (Walton, Lowther, Stylianou, Mpini, Ashton, Ewer, Reed, Huynh, Qurashi: US election 2016: Trump victory in maps), Michigan, Wisconsin, and Iowa<sup>1</sup>. The pro-conservative movement was driven mainly by the white, non-educated part of the general public. There are no doubts that Trump owes his victory to the Americans who were dissatisfied with the post-recession reality, the dropping role of the US in the world, or the massive widespread of illegal immigrants within the country. Therefore, it looks like Trump has succeeded in the election either thanks to the well-conducted campaign or the systematically dropping living standard of the significant part of the Americans after 2008.

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<sup>1</sup> Own study based on the data from *New York Times* and Politico.com.

Taking into consideration Trump's electorate, it is crucial to assess the real impact of the imposition of tariffs on its living conditions. On the one hand, the reduction in the number of imported goods would positively influence the jobs creation driven by the local entrepreneurs. Moreover, the redistribution of national income probably would be more effective. According to the ING, the imposition of additional tariffs on the imported products (45% on the Chinese ones and 35% on the Mexican) would have the negative impact on the growth of the American GDP. This forecast reflects that the increase of domestic production would be able to cover only 28% of the ensuing shortages. As a consequence, the American economy would shrink by 0.77%. What is more, the price for imported goods would become higher at 15% in just 2 years. Leering and Carnell (Trump and Trade...Threats or all-out trade war?) computed the joint cost of the tariffs imposition as follows: 0.28% (the growth of the American GDP generated as a result of the increase of the national production) -1.05% (the negative impact of the imposition of tariffs). Therefore 0.28%-1.05% equals -0.77% of the generated loss.

In 2018, after the first episode of the trade war and afterward the first impositions of trade limitations on Chinese products, it is discernible that Beijing does not intend to stay passive in this conflict. It is necessary to assess how strongly depended on the transactions with China, the chosen states indeed are. Hence, I would suggest to examine the real influence of China on the trade structure of 3 selected states which are the sample for this study. I have decided to extract them according to the consecutive categories: the state with the lowest GDP per capita (Louisiana), the state with the high proportion of the white citizens (Kentucky) and the state where Republicans seized the advocacy of residents at the cost of Democrats (Florida).

## **Louisiana**

As stated by Setter, Louisiana is the state with the lowest yearly income per household, assessed for \$40 300 and the population of 4.68 million inhabitants (Louisiana Population 2017). The unemployment rate was 4.9% in 2017. In the last five years, inflows of Chinese capital have had the significant impact on the shape of the local labor market. In 2014, the very first Chinese foreign direct investment arose there. One of the leading China's chemical companies, Shandong Yuhuang Capital Co. Ltd. decided to make a \$1.85 billion capital investment in a world-scale methanol manufacturing complex on the Mississippi River in St. James Parish (Governor Jindal And Shandong Yuhuang Chemical Chairman Jinshu Wang Highlight Ground-breaking For \$1.85 Billion Methanol Project in Louisiana).

Chinese enterprise promised to create 400 new direct jobs, with an average annual salary of \$85 000 plus benefits. Furthermore, Louisiana Economic Development evaluates the project will generate almost 2400 new indirect jobs. At peak



building activity, around 2100 constructors should find temporary engagement. The initial phase of the investment has run in May 2018. The construction of the first methanol plant is planned to be completed by the first quarter of 2020. To cite Opportunity to Louisiana: to ensure the project, this state granted the company a stimulus package that includes two performance-based gifts: “9.5 million to be paid over five years beginning in 2017 to offset infrastructure costs of the project and \$1.75 million to be paid over 10 years to partially cover the costs of necessary riverfront access and development.” The end of the operation, conforming to Brelsdorf (Yuhuang Chemical lets a contract for Louisiana methanol complex) is scheduled by 2024. Another example of Chinese investor in this state is Wanhua Industrial Group, one of the global leaders in the production of polyurethane. This company decided to invest \$1.12 billion in the US. According to Liu (Chinese Chemical Firm Invests \$1 Billion in Louisiana Plant), around 1100 workers ought to find employment there.

The Governor of Louisiana, John Bel Edwards, published that China was the very first trade partner for his state in 2016. In addition, this state was the third largest recipient of Chinese direct investments in the nation. To cite Xiao and Yu'an (Louisiana loads up on China trade), its export amounted \$8 billion, and the trade volume increased from \$7.5 billion in 2015 to \$9.1 billion a year later. At the same time, state had a positive balance of payment with China, mainly because of Chinese demand on its agricultural products (accumulated value of almost \$7 billion). Moreover, there still exists an absorptive market for the ore or copper from Louisiana. Despite the tensions which have been growing for a quite some time, along the line of contact between Washington and Beijing, a strong likelihood of continuation of tightening relations between Louisiana and China still exists. Since April 2014, Chinese enterprises obtained an option for negotiating the agreements with American suppliers of a liquefied natural gas. Louisiana, which has plentiful resources of this fossil fuel hopes to attract further Chinese investments related to this industry.

## **Kentucky**

Kentucky is one of the most ethnically homogenous states in the US. Over 87% of its inhabitants are the members of the white population, mainly belonging to a working-class (Kentucky Population 2017). It is also one of the poorest parts of the US with an annual average income calculated at \$42 800 (only slightly over Louisiana). The unemployment rate in 2017 was 6.2% (Setter).

An activity of Chinese investments has gradually arisen in Kentucky since 2012. Conforming to Sloan (Kentucky's first major Chinese investment to be Lexington factory), Shandong Borun Industrial Processing Equipment, working within the mining industry, decided to take over the Birtley Industrial Processing.

The value of the deal had amounted to \$15 million and created around 50 new jobs (Zhou: Birtley first Chinese Investment in Kentucky). Just after the transaction, this newly-formed enterprise launched a strengthened cooperation with the scientists from the Universities of Georgia and Alabama. As a result, the company was able to produce very advanced solutions related to the protection of the natural environment in a very brief time, with China as its principal beneficiary. The other instance of an economic partnership between Kentucky and China is an opening of the R&D center by Midea Group. It is currently the world's biggest producer of the air-conditioners and white goods. According to Finley (Appliance maker to establish an R&D center in Louisville), the amount of the deal accounted \$10 million. Despite the low sums of Chinese investments in Kentucky, in comparison to ones described in the case of Louisiana, positive trend in the fruitful collaboration between Chinese business and the American science is visible. The export of advanced goods from the US to China has been rising in its effect.

In 2016, two American companies were acquired by Chinese capital. First of them was Lexmark which was taken over by Zhuhai Seine Technology and Legen for \$3.4 Billion (Wang: Apex Changes From Foe to Suitor With \$3.6 Billion Lexmark Deal). However, one of the most surprising deals in the modern history of the US could have been found the sale of located in Louisville appliance unit by GE Electric to Qingdao Haier Co. Ltd. (Mann: How many Chinese companies operate in Kentucky?). Furthermore, the Chinese brand gained the right to use GE's logo on its products for the next 40 years. At this point, it is necessary to weigh the production capabilities of GE against the Qingdao ones. According to Mann (GE confirms a \$5.4 billion deal on appliance unit), in 2014, the Chinese producer was sixfold more efficient than American. The dependence of the US and Kentucky on the positive business relations with China is even stronger. Ford plans to relocate its production of Focus entirely to China until 2019. The main reason for this decision, according to Durbin (Ford Focus: Made in China), is the consecutive decline in demand for the small cars in the US. Thanks to that, Ford will save around \$500 million. Additionally, it is worth to mention that Buick and Cadillac have already transferred their plants to China in 2015 and 2016. However, Ford is out to spend \$900 million on the new factory in Louisville that will provide employment for around 1000 new workers.

## **Florida**

This state is a slightly different example than the two analysed above. First of all, because it is the top destination for retired people who constitute 15% of the entire population there. Secondly, it is one of the most developed academic hubs in the US, which hosts students from all across the world. Last but not least, Florida is still a famous tourist destination, visited by around 100 million people every year.

The average annual income of the household in Florida is \$50,860 when the median for the US is \$57,617 (Florida Household Income). The unemployment rate is 3.6% that is one of the lowest results in the US (Economy at a Glance). Florida is also the third most populous state in the US, with the number of inhabitants of 21.31 million (over 20% of them speaks Spanish every day) (Florida Population 2018).

The introduction of an impost on the Chinese commodities seemed to be a direct way to a nationwide price hike. Florida is the biggest importer of Chinese goods on the national scale and the third largest individual trade partner for China (State Imports for Florida). In accordance with Dotson (Enterprise Florida Opens Business Development Offices in China), in 2014 the federal authorities of State decided to run the offices of the Enterprise Florida Agency in Shanghai and Hong Kong. Its main tasks were the development of mutual business relations and the successful attraction of Chinese capital inflows to the state. In the meanwhile, Florida has become the first receiver of Chinese freightage in the US expressed in capacity. It was made possible by the successful cooperation between the Port of Miami and located in the radius of 30 miles, Port of Everglades. That process was driven mainly by the investments in the development of local logistics for a sum of around \$850 million.

As claimed by Ottley (Miami real estate likely to be increasingly attractive to buyers from China), Florida has been considered recently as the profitable place for Chinese investors as well. The prices of real estates are relatively low compared to the New York, Shanghai or Hong-Kong (Stinson: Xi Jinping Heads to Florida as Chinese Investment Booms). The most recognizable are China City Construction and Hong Kong's Swire Properties. A fortiori, more and more Chinese citizens are thinking about the permanent immigration. Model of the American lifestyle, which has been successfully promoted for decades around the world, draws today mainly the attention of Chinese who are getting wealthier. It is said that about 340 million of them would have been retired until 2030. Another type of investment is the purchase of the flats for the further subtenant or for children who are studying there (four reasons why Florida is the next big thing for Chinese buyers).

However, at the beginning of 2018, the enthusiasm among Chinese investors slightly diminished. It was the result of Trump's declaration about the indispensable implementation of the restrictive law relevant to the constraints for the non-American purchasers of the real estate in the US (Kallergis, Chinese investors picks up another South Florida property). Like I tried to prove above, any active interference of Trump's administration in the bilateral economic relations between chosen states and China seem to have no positive effects on both sides. Moreover, I think that Chinese investments are the only solution for the sustainable development of the single states and the entire country, in many industries (US-China Business Council, 2-3).

## The effects of the trade war nowadays

In the middle of July 2017, an unofficial trade war began between Washington and Beijing. The mutual relations have been consistently worsening, what resulted in the imposition of the first indirect economic customs on China at the beginning of 2018. According to Iyengar (US-China trade battle: How we got there), the firsts factual constraints against China were implemented by the US within the solar industry. Trump's administration announced then a 30% tariff on imported solar panels, which mainly come from China in the case of the US, and starting from 20% taxes on residential washing machines. On 9th March 2018, Trump taxed steel imports at 25% and imported aluminum at 10%. Finally, only Canada and Mexico, the members of NAFTA, obtained exemptions from these taxes.

Since the very first days of April 2018, the conflict escalated. China decided then to hit back. Beijing implemented tariffs on US imports worth in total around \$3 billion, including 15% duty on 120 American products containing fruits, nuts, wine, and steel pipes and a 25% tax on eight others, like recycled aluminum and pork (Shane, China fires back, announcing tariffs on US planes, cars, and soybeans). The day after, Washington targeted in retaliation another \$50 billion in Chinese goods (25% tax on almost 1300 items), most of them from the aerospace, machinery, and medical industries. The Chinese answer was swift. On 4<sup>th</sup> April 2018, Beijing published the list of further 106 American products affected by the implementation of a new set of tariffs (25% tax of the total amount of \$50 billion). It included aircraft and automobiles as well as soybeans and chemicals.

The second wave of the trade war appeared at the beginning of July 2018. To cite the Telegraph (Donald Trump imposes first tariffs on China and threatens to target almost all \$500 billion Chinese import), "Trump decided to hit in Chinese economy again, with 25% duties on a total amount of 34 billion. They involved Chinese machinery, electronics and high-tech equipment, including autos, computers hard drives and LEDs." One month later, according to the report of Donnan and Hornby (China hits back at 'trade bullying' Trump), China acting in retaliation, targeted US farm and energy export, containing soybeans, a top export of US states that supported current president, and crude oil. The implications of the trade war are the most painful for the governments and multinational corporations across the world. The conflict is regularly fanning by Trump who has announced in July 2018 an extension of levies to \$500 billion, which is almost equal to the whole trade exchange between China and the US in 2017 (\$505,5 billion).

The new approach of the US is currently redefining the global economic reality, which dramatically changed after the accession of China to the World Trade Organization in 2001. In the meanwhile, this country has become the very first exporter in the world being responsible for 20% of global sales today. In the opinion of Bouoiyour and Selmi (Political elections and uncertainty – Are BRICS market

equally exposed to Trump's agenda?), the imposition of the tariffs could sharply threaten the Chinese economy in the future because its long-term growth has based on export for the last 35 years. Therefore, the limited access to the American market could be another drawback for the stunting growth of the Chinese economy since 2010.

What is more, looking at the rapidly changing structure of Chinese export in the last decades, dominated by the advanced technologies today, the American market seems to be the perfect and in fact the only, outlet for it. Furthermore, a lot of the factories operating today in China were set up by the American corporations. Hence the imposition of the tariffs hurts indirectly American economy as well. The trade war will probably have a negative impact on the liberalization of the Chinese internal market that consistently has been becoming more and more open for foreign businesses. As an example, it is worth to mention the case of the Free Trade Zone opened in Shanghai in 2013 and the ones in Fujian, Guangdong, and Tianjin ran in 2015. Another effort made by the Chinese government toward the liberalization of the business conditions was the recurrent publication of the negative list. Foreign investors could have found the liberalized areas for their activities there (Daojiong, 12–13).

As stated by Chipman Koty and Qian (China's New FTZ Negative List Removes Restrictions on Foreign Investment), only between 2015 and 2017 over 20 industries were freed up (in total 95 since 2013). Among them, it is necessary to emphasize those the most important for the US: pharmaceutical, insurance, transport or financial ones. Taking into account the growth of GDP of the abovementioned zones, their results were much higher than in the case of the rest of the country. Shanghai, mainly focused on the cooperation with global corporation customers, has grown by 14.2%. Zone in Fujian, which has been responsible for the improvement of mutual trade relations with Taiwan, has augmented by 8.2%. Nonetheless, the most astonishing results achieved zones in Guangdong (30.8%) and Tianjin (20.8%). On the authority of Shira & Associates (Investing in China's Free Trade Zone), the first one emerged to tighten its partnership with Hong Kong and Macau, whereas the second one supported the development of the northeast provinces of China.

Above-described points clearly state the positive change in Chinese business cooperation within the global environment. On the one hand, Trump's accusations regarding Chinese theft of American intellectual property have their business case. In last decades, Asian competitors have become the real threat for the American producers. It became possible thanks to the strict protectionist policies that have been consistently implemented by the Asian authorities since the end of World War II. Moreover, according to Bernard Chan (A US–China trade war would benefit no one, least of all Americans), deviation from the existing economic order in the world would have either very negative consequences for relations between

Washington and Beijing or, perhaps, the global economy as a whole. Since the beginning of the 21st century, the emerging economies have shortened their distance to the developed ones mainly because of globalization, the phenomenon negated by Trump. China could be considered as the best example of its positive influence on the rise of a standard of living in the world. 40 years after the implementation of Deng Xiaoping's reforms, this country has efficiently transfigured from the first global producer of the base goods into the uttermost consumer therein.

It is worth investigating the American industries for whom China seems to be the main outlet. In the first place appears the revenue generated by the American movies in China. In 2016 they earned \$6.7 billion there, which makes China the second largest market for the productions directed in the US. Ye (Here are the American companies most at risk in a trade war with China) discloses the fact that 75% of the whole income remains in China. As another example aircraft industry could be mentioned. It is said that Chinese Airlines would like to purchase around 6800 new American planes in the following 20 years. The total cost of those transactions is assessed today for \$1 trillion. Furthermore, in that time their production will reassure around 150 000 workplaces in the US. According to Fernholz (If US trade with China is so unfair, why is GM the best-selling car there?) the automotive industry would also get hurt by the constraints arising from the imposition of import duties since both Ford and General Motors earned around \$5.4 billion in China in 2016 alone.

To show one more element of interdependence between China and the US, it would be worthwhile to compare the structure of consumer demand in both countries. Since the second decade of the 21<sup>st</sup> century, Chinese consumers have begun spending on the consumers' goods in total as much as the Americans. The most significant growth was observed between 2007 and 2016 when a retail sale was growing there on average by 15.4% annually. For comparison, in the US this growth was modest, at only 2.5% (Shen, 22). In 2009, China became the largest market for passenger cars in the world with the sale of almost 24 million yearly. In 2012 the Chinese market turned out to be the biggest outlet for the mobile phones. Apple alone has been selling there about 50 million of mobile phones since then (Morrison, 10).

This phenomenon could be explained by the fact that the Chinese middle class overcame the American one in 2015. Nowadays, around 110 million Chinese citizens belong to the middle class that is larger by 18 million people than the American one. Therefore, the demand for the American services in China is consistently growing that makes the ultimately positive outcome of the American balance of services (Morrison, 11–13). Its aggregated surplus for tourism amounts \$25 billion in 2015. Only in 2014, 273 000 new workplaces in the US were opened thanks to the increasing export of services to China. If the companies like Google or Facebook had been allowed to enter the Chinese market, this number could be even more imposing (Shen, 25–30).

The past experiences of the trade wars around the world portray mainly negative consequences for the affected countries. Japan provides a significant example. After rapid development during the 1950s and 1960s, this country reached the level of the developed economy in 1967. One of the most important economic partners for Tokyo, since the end of World War II, was the US. Nevertheless, local authorities decided to implement quantitative constraints on the most exported items there since 1977. Among them, it is necessary to distinguish cars, TVs or steel. In 1985 an agreement, well known today as Plaza Accord, was signed (Shen, Luk, 2–4). As the result, the Japanese currency (Yen) sharply appreciated overnight, from 250 to 160 per dollar. Such an abrupt appreciation either went into the burst of a speculative bubble on the real estate market or a decline in domestic export. Japan has fallen into the trap of weak growth in the late 1980s, which has its consequences to this day.

The above-described scenario is hardly possible in the case of China. However, still worsening trade relations with the US could interfere with the development of the global economy as a whole. Taking into consideration that around 20% of the export of the world is generated by China alone, and the fact that the US is its priority outlet, it is quite difficult to anticipate that present trade conflict on the line between Beijing and Washington will be profitable for one side or the other. On the contrary, the American business is aggrieved as well. China is presently, as I proved earlier in this text by numerous examples, either a significant investor in the US or one of the largest recipients of the American goods. Any difficulties imposed by Trump's administration on the mutual business relations with China, seem to be out of its interest.

## Conclusions

It is more than two years since the election of Trump. Although the first year of his office was assessed by Cohen as fortunate (Trump's Lucky Year), his consistent pursuing to tightening of restriction toward China apparently brings expected results today. Trump used to be mercurial at the beginning of his presidency. Initially, he was accusing China of raping the American economy by the flood of cheap Chinese products. In the meanwhile, he was able to find president Xi Jinping as his personal friend and a strategic ally. As a result of these contradictions, throughout the first phase of redefining these bilateral relations (until the middle of 2017), China gained politically much more than the US. As discussed in section (a), Washington decided to lend its support for the concept of the Silk Road. This volatile rhetoric led to a weakening of the image of the American diplomacy therein. Nonetheless, later events have shown Trump's tenacity to keep following his harsh policy toward China.

It should be born in mind that Trump had no political experience before his unsuspected choice for the president of the country. Notwithstanding, some of his early decisions looked more as an effect of business negotiations instead of the execution of assumptions on which was based past foreign policy of the US. Trade with China has declined significantly for many states within the US due to this new approach. It is necessary to emphasize that many American enterprises obtained significant financial support from Chinese investors right after the crisis of 2008. As a result, rather than the diminishing amount of workplaces, new ones, mainly dedicated to the American citizens, emerged. A similar phenomenon was observed within the real estate industry, consistently fueled by the investments carried out by the Chinese middle class.

The role of China for the sustainable growth of the global economy is so essential that an intentional avoiding of the trade exchange with this country by the US could have a negative impact for its development in the following years. As argued in section (b), there has already appeared fruitful cooperation between Chinese business and the American academic institutions (the interwoven case of Midea Group and the Universities of Alabama and Georgia). Nonetheless, China will never become the developed economy without liberalizing access to its financial markets for foreign capital more than ever before. They are still inadequately linked to the flows of world capital compared to the current position of the country in the world. Moreover, there is a great necessity for the discontinuation of promoting of state enterprises by the Chinese authorities because of an absence of tangible results and the overwhelming financial effort for the state budget.

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