

Analysis of the Causes for the Sino-US Trade War

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Abstract: In 2018, the US government launched a trade war against China, and later it became a tit-for-tat competition between these two economies. It brought more uncertainties and challenges to bilateral and global trade. The economic conflict was a long-term issue between the two countries, while the Section 301 investigations provided rationales for the Trump administration to launch the trade war. This paper aims to reveal the reasons that contributed to the Sino-US trade war in order to better understand the whole economic conflict. There are some data collected by the US government and some official organizations are used in this paper to introduce the background. The writer mainly uses the literature analysis to discuss the possibilities that cause the trade war and applies one theory – the Hegemonic Stability Theory to analyze the situation. At last, different perspectives of the deep-seated causes were applied to understand the trade war. This paper discovers that the trade war between the two countries was not only caused by economic conflicts, but also technological disputes, and other deep-seated issues, including national security and political concerns. All these causes should be addressed to understand and smooth the tensions.

Keywords: US, China, trade war, causes

1. Introduction

In the year of 2018, US President Trump raised tariffs on Chinese imports and later declared a trade war with China. The Section 301 investigations (an enforcement tool, under the Trade Act of 1974, to address a variety of unfair acts, policies, and practices of U.S. trading partners) provided rationales for the Trump administration to launch the trade war [1]. Subsequently, the Chinese government retaliated against the US actions by increasing tariffs on American goods. According to Evenett, there are three phases of the Sino-US trade competition: Trump administration imposed global safeguard tariffs on imported solar panels and washing machines in the first phase [2]. The second phase involved tariffs on steel and aluminum imports. While in the third phase, some Chinese State-Owned Enterprises (SOE) were accused of illegal forced technology transfer, which was against American Intellectual Property Rights [3]. The sanctions were mainly put on the high-tech products area. The Chinese government retaliated against the actions by imposing tariffs on agricultural and energy products at first, then spilling over to other areas.

The bilateral trade has been seriously affected ever since the two largest economies implemented economic sanctions on each other. The Sino-US trade war was caused by deep-seated conflicts, leading to a serious outbreak between the two countries. Firstly, this paper analyzes the data from different official organizations to introduce the background of both countries and the bilateral trade

and point out the problems through the comparisons. Then, the writer uses literature analysis to explain this tit-for-tat competition, including the economic situation, the technological frictions before the trade war, and the insecurity of the national interests of both countries. The Hegemonic Stability Theory is applied to analyze the deeper reason why the American government started the trade war against China. At last, this paper compares different perspectives on the Sino-US trade war to understand the underlying problem between the two nations.

This paper aims to analyze the possibilities that contributed to the trade war, which provided opportunities for both countries to discover the differences and later come up with an effective global strategy.

2. Causes for the Trade War

This paper explores the causes of the Sino-US trade war from three aspects, which are the economic situation, technological decoupling, and the insecurity of national security. During Trump's presidency, he deeply influenced these three aspects with the "American first" principle, while China's attitude also escalated the tensions between the two countries. The causes would be analyzed in the following paragraphs.

2.1. Economic Situation

China started economic reforms toward the open market in 1979, which encouraged western capitals to promote the Chinese economy. US-China economic connections became closer when China joined World Trade Organization (WTO) in 2001 when the United States supported the entry of China into WTO and removed commercial policies in exchange for encouraging political reforms in China. Joining WTO provided China with opportunities to experience high-speed economic growth for decades. The membership of WTO freed up significant trade barriers to Chinese goods, liberalizing Chinese economic potential [4]. According to UNCTAD, China's GDP was almost 50 times that of 1979 when the government determined to implement open-door policies and welcomed the capitalist market [5]. It can be seen that the economy grew rapidly over the past 40 years in China. Besides, the global financial crisis in 2008 was a major factor in the change of Chinese leaders' attitudes. Global capitalism is the mainstream for globalization, whereas liberal capitalism was seriously affected by the 2008 financial crisis. In comparison, the Chinese economy resumed quickly from this crisis compared to other western developed countries, which gave Beijing more confidence in pursuing a China model of state-capitalism. Chinese leaders began to criticize "inappropriate macroeconomic policies" in emulating the western model [3]. With this attitude, the influence of state-owned enterprises becomes more important in China and the government intervenes in the markets more frequently, leaving potential problems for the bilateral trade between China and America.

However, America has suffered a trade deficit since the 1980s. Based on the data collected by the US Department of Commerce, unequal commerce contributed to the widening of the trade deficit, which raised to a record of 419.5 billion dollars or 46.7% of the overall US trade deficit in 2018, with rising tensions between the US and China. The trade imbalance was also embodied in energy. Energy independence is one of the important factors that influence global supply chains. Energy like fossil fuels and minerals is essential to industries, and eventually, it will turn into goods or services, which can be measured by currency [6]. It was also the Trump administration's strategy to balance the trade deficit and improve domestic economic conditions. Under these unbalanced trading circumstances, Trump Administration's first goal was to correct the unfair trading practices through bilateral negotiations. However, when the negotiations failed to achieve the goals, the American government decided to levy tariffs on Chinese imports. The asymmetry between the two countries was one of the main causes for Trump to launch the trade war.

Promoting “America First” foreign policies, Trumpism is closely related to protectionism and economic nationalism to some extent [7]. Compared to former American presidents, Trump administration focused more attention on domestic employment and local Americans’ salaries. Globalization and trade deficits contribute to the loss of manufacturing jobs in the central areas of America. With human capital becoming higher in America, various multinational corporations outsource manufacturing chains to less developed countries or areas in exchange for their cheaper labor costs and raw material costs. On the one hand, the relocation of factories upgrades industrial structure and benefits poorer foreign areas. On the other hand, for local Americans, according to Sukar and Ahmed, the structural change in the economy brings rapid technological changes and productivity growth, but it also makes some unskilled workers lose their jobs more easily and increases income inequality in the US. Aiming to achieve a “Great American Economic Revival”, former president Trump had taken a series of actions to decrease America’s dependence on foreign resources and industrial chains and to solve the hollow-out issues in the manufacturing industry. These policies were made to move some manufacturing factories back to the US and provide more job opportunities to local Americans, especially for the people in the middle areas. Overall, Trump’s conservative trade policy aggravated economic conflicts between the two countries, leading to economic decoupling.

2.2. Technological Frictions

Economic decoupling had spill-over effects in other areas. Technological frictions were also unignorable in the trade war as they may eventually lead to technological decoupling.

Before the trade war, the Trump administration had launched a series of investigations on Chinese high-tech companies. Under Section 301 of the Trade Act of 1974, the US accusations of China’s unfair trade acts, policies, and practices in forced technology transfer and intellectual property triggered the trade war. “Forced technology transfer” refers to the government requiring a foreign company to share its proprietary information by administrative laws in exchange for the entry of this country’s market [8]. There are strict rules for some foreign firms to conduct business in China, ranging from approvals of specific investments and products to varied licensing requirements and regulations. Given that most technology owners are from the private sector, there is no universally general international agreement on technology transfer, making it harder for the government to regulate international intellectual property.

Technological competition came into Sino-US relations in 2017. China is trying to catch up with the U.S. in artificial intelligence and aerospace as a way to promote its influence among “the Belt and Road” countries. Beidou navigation system, applied to smartphones and car navigations, has been popular in some Asian countries. It also led to another problem with the new 5th Generation of mobile (5G), a mobile network with higher download speed and lower latency. The US government is insecure about Chinese ambition in advancing technology and thus the conflicts over 5G core technology marked a return of geopolitics to international relations and sped up the Sino-US technological decoupling [9].

During the trade war, some of the Chinese state-owned enterprises (SOEs) were accused of violating intellectual property rights in America. For example, Huawei, multinational telecommunications and electronic enterprise, was prosecuted for stealing other companies’ intellectual property and violating policies of sanctions on Iran. In 2018, Huawei executive Meng Wanzhou, whose father is the CEO of Huawei, was arrested in Canada for bank fraud and the theft of other companies’ technology on the US extradition request [10]. Subsequently, two Canadians were charged with spying on national secrets in Chinese territory and were released to Canada when Meng safely went back to China on 24th September 2021. It was seen as retaliation by the Chinese

government for Meng's accusation by the western countries [11]. The relationship became worse, and the negotiations remained stalled from 2020 to 2021.

The US authorities believed that the official and personal data collected by the Huawei company could be accessed by the Chinese government. Later, the worries about Huawei's spies were not only in America but also spread to Canada, Australia, Britain, and so on. These countries have taken different actions to define the technological involvement of Huawei, as well as the 5G technology in their territories. The restriction on chips exporting to China was one of the results of technological decoupling, making it harder for China to develop its technological production.

2.3. The Insecurity of National Security

Huawei was viewed as a threat to American national security. However, Washington's worries were not only in the economic and technological area, and it may come from another divergence between China and the US, which is the ideological difference. The conflicts between the two countries are not only in the markets but also in their national security. Trump's presidency emphasized trade protectionism and nationalism. According to Lipset, American value includes individualism, anti-statism, populism, and egalitarianism. These common values deeply influence every generation of America, and they believe that they have a more complete and superior legal system. It gives them a special mission to make a better world, which contains international intervention and democracy promotion, and normally it is called American exceptionalism. Trump took various actions to ensure America's status in the world and to make America great again. Furthermore, some recent Chinese initiatives, such as the Belt and Road Initiative in 2013, the creation of the Asian Infrastructure Investment Bank in 2016, and "Made in China 2025", were seen as challenging American status in the world by the Trump administration [12]. In the meanwhile, Economic and political conflicts between the US and China worsened xenophobia.

Nationalism is defined as a view that one's country is superior to other countries and thus one should support its country's actions unconditionally [13]. During the Trump administration, it reflected a rise in Nationalism, and for China, nationalism also rises to a new high level since the Reform and Opening-up in the 1970s [6]. Chinese were taught with "100 years of humiliation" when they were at school, which lasted from the Opium War to the end of World War II. Most Chinese students in the history class would learn this terminology at a very young age and it increased the feelings of anti-America during the trade war [14]. The cultural factor influenced the relationship between the two sovereign countries as well.

3. Different Perspectives for the Sino-US Trade War

There are different views on the Sino-US trade war. In this paper, the discussions are roughly divided into liberal and realist perspectives. The former is concerned with the American attitude toward the free market, and the latter includes power politics and hegemonic power according to the realism.

One potential reason for this situation is concerned with national interests, which can be explained by the Hegemonic Stability Theory (HST). This theory was developed by Charles P. Kindleberger in his book, *The World in Depression: 1929-1939*. The HST, one of the most typical theories in realism, argues that a single predominant power possessing the greatest materials, such as military and economic goods, would enforce its regulations and seek to stabilize the system [15]. Relying on its military and economic strength, the US has become the world's solely hegemonic country after the Cold War. It has created a liberal international economic order and maintained this order by promoting global free trade. However, with different economic and political systems, China challenged US hegemony to some extent. According to Sheng, the ideological contradiction between socialist and capitalist values may end up in a rivalry situation, which makes the rise of China become

a threat to the international order created and dominated by the US [16]. Thus, the US would take a defensive attitude toward Chinese economic and military rises in order to protect its national interests. It is probably one of the reasons why former president Trump would start the trade war.

Some scholars also argued that the US launched the trade war for more deep-seated reasons - the institutional conflict. From the perspective of liberalism, scholars argue that the US did not recognize Chinese state capitalism. According to Chinese scholar Jia Qingguo's speech, the frictions lie in the divergence between the market-driven and government-driven development models. The inevitable institutional conflict partly illustrates the reasons of the trade war [17]. Another Chinese scholar Wang believes that the deep problem of the American government launching the trade war lies in its understanding of the Chinese system [18]. The relationship cannot be truly improved unless a change in the US government's inherent recognition of the Chinese economic and political system, or a fundamental change in the current Chinese system. Wang suggested that the Chinese government can eliminate some hidden barriers in bilateral trade by establishing more specific laws to welcome foreign companies' capital. In this case, the economic disputes were actually the spillover effects of the political conflicts between the two countries.

4. Conclusion

This paper mainly discusses the causes of 2018's Sino-US trade war and compares different scholars' perspectives toward it through literature analysis. The outbreak of the COVID-19 pandemic in 2019 made the bilateral negotiations, both economically and politically, more complicated between the US and China. The relations worsened greatly when the pandemic reached domestic America and caused a serious spread in 2020. The antagonism between each other made it even harder for the two superpowers to negotiate. Current American president Biden holds different attitudes toward the international affairs in many aspects compared to Trump. However, the future of China-US relations remains unclear, but based on the current situation, the tensions are likely to continue. No matter what the future will be like, one thing is for sure, there is no winner in this tit-for-tat competition. The influence of the "zero-sum game" has led to higher customer costs, more trade barriers, an unstable market, and slower economic development in both countries. Nowadays, considering the complexity of the bilateral economic and political relationship between these two economies, it might be better to solve the problem through negotiations and compromises as the tit-for-tat race would bring more uncertainties and challenges to the global environment. European and other Asian countries were also affected by the trade war launched by Trump administration. To sum up, cooperation is an important topic in China-US interactions for sustainable development, both domestically and globally. This paper still needs further study as the method used in the paper is simple. In the future, the research can collect and analyze the data to better understand the causes and effects of the trade war. Furthermore, the effects of the trade war on both countries and the influence on international trade can be studied, too.

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