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**THE U.S. AND CHINA ECONOMIC TRADE RELATIONS: AN ANALYTICAL SURVEY**

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**ABSTRACT**

*Purpose* – This paper is devoted to disclosing urgent macroeconomic trade issues taking into consideration the case of China and the United States of America.

*Methodology* – The primary research methodology of this paper is based on conducting the comparative analysis of existing patterns of macroeconomic development, political differences and social issues within China and the U.S. The given analysis is based on PEST, SWOT, Risk identification techniques as well as the diamond model by M. Porter detecting competitive advantages for the countries mentioned above. It is also implemented the systematic vision, causes and consequences analysis, and expert assessment.

*Originality/Value* – Nowadays the U.S.-China trade disputes is the current issue of great global impact and significance. These trade relations support more than two and a half million jobs in the United States in various industries, including jobs created by Chinese companies in America. And the Chinese middle class continues to expand rapidly over the next decade. According to expert estimates, by 2026 the number of Chinese middle-class consumers will exceed the entire population of the United States. This means that the U.S. companies will face serious challenges to attract a new and profitable customer base, which can further increase employment and economic growth. Thus, this paper presents the most contemporary analytical review of this current economic situation based on the latest data of 2017-2018.

*Findings* – In the given research it has been studied the current issue of the U.S. and China economic trade relations. It has been analyzed the current economic, social and political aspects of trade relations between the United States and China. It has been detected their advantages and disadvantages for both countries based on methodologies and analytical tools described above. It has been considered the possible solutions and recommendations on how to improve the current macroeconomic relations between given countries.

*Keywords* – Trade economic relations, trade deficit, imbalance, trade war, The U.S., China.

**INTRODUCTION**

Nowadays, one of the most current economic issues is the trade disputes between China and the United States that has a very significant impact on both national economies of these countries as well as international economic situation. These economic and trade relations support more than two and a half million jobs in the U. S. in various industries, including jobs created by Chinese companies in America. And the Chinese middle class continues to expand rapidly over the next decade [1, 2].

According to expert estimates, by 2026 the number of Chinese middle-class consumers will exceed the entire population of the United States. This means that the U.S. companies will face serious challenges to attract a new and profitable customer base, which can further increase employment and economic growth. Economic data show that countries closely cooperating with China are ahead of countries with less integrated trade connections, and this trend is expected to continue [3].

The trade deficit of the U.S. is getting worse and worse, not only because of the imbalance between the U.S. and China, but also between the European Union and other countries (see Figure 1). The U.S.-China trade relations have been developing with frictions and disputes. After China joining the World Trade Organization (WTO), the frequency of trade frictions has increased. The United States has become the country with the most trade frictions with China. China is involved in more than 20% of dumping allegations by the U.S. [3, 4].

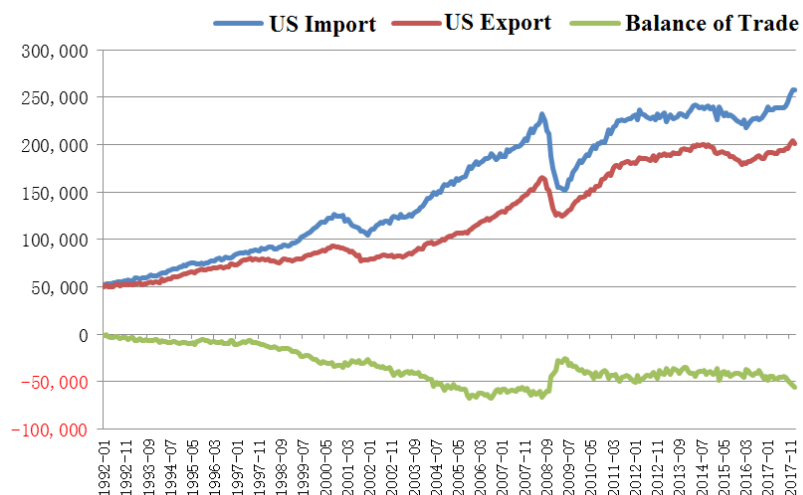


Figure 1 – Trade deficit of the U.S., 2017 [3, 4]

Trade imbalance, special protection of textile products, anti-dumping against China and other issues constitute the main content of the U.S.-China trade friction. The competition of economic interests between China and the United States, the return of domestic trade protectionism in the United States and the strategic containment of China by the United States are the main reasons for the increasing trade frictions between China and the United States. Trade frictions have had a great negative impact on the development of these economic relations and trade. In Figure 2 it is presented trade value between China and the U.S. during 2017 [3, 4, 5].

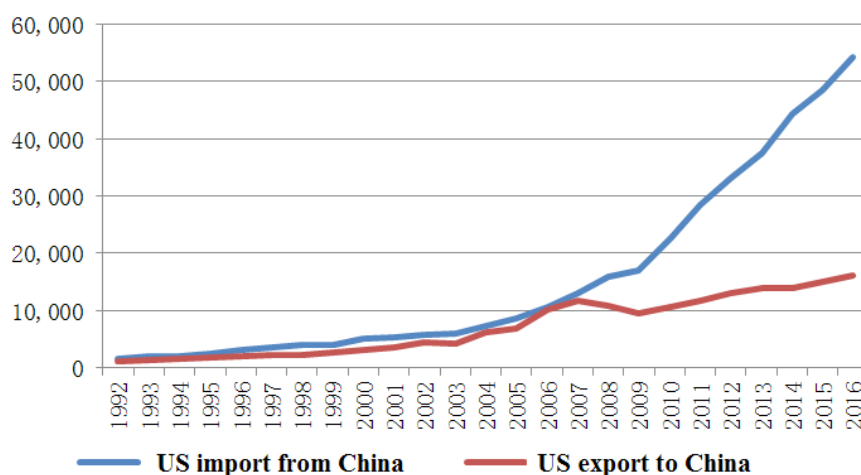


Figure 2 – Trade value between China and U.S., 2017 [3, 4, 5]

Trade frictions between China and the United States are mainly microeconomic frictions, but they will be extended to other areas. The RMB exchange rate problem in 2003 has been a macroeconomic friction, and it continues to now. Just as joining WTO has not reduced trade frictions between China and the United States [6]. It is hard to guarantee that China will face much fewer restrictions.

In the future, the trade between China and the United States could expand to include labor standards, subsidies, health inspection standards, security issues, trade inequalities, and institutional arrangements related to investment and trade.

### PROBLEMS, GOAL AND OBJECTIVES

Absolute advantage of “Made in China” goods is one of the main causes of the imbalance of trade. As a strategy of reducing the advantages of “Made in China” products, Washington will add up to a 25 percent tariff on 818 Chinese products, with the potential for another 284 items to be added. China has pledged that in return it will do the same to 545 American products [7].

China Foreign Ministry Spokesman Lu Kang states that China hopes the U.S. will “do something conducive to the mutual trust” but that the country is prepared to take “necessary measures” when the U.S. imposes tariffs on Chinese goods in 2018 [8].

The U.S. export control of high-tech products to China is an important reason for its trade deficit. The United States, on the one hand, restricted include aerospace and other high-tech exports to China, on the other hand, limit to invest in the United States high-tech companies such as Huawei, in addition to leading the watt’s agreement, claim out of consideration for “national security”, it is forbidden to Chinese exports include aerospace, information technology, new material and so on almost all high-tech products and military products [9]. According to statistics, if the level of the U.S. high-tech export control to China falls to the level of France, the China-U.S. trade deficit can be reduced by 34% [10].

The main goal of this research is to study the current problematic economic issues in trade relations between the United States and China. To achieve the research goal, the following objectives have been identified:

- to study the current issue of the U.S. and China economic trade relations including appropriate theoretical background;
- to analyze the current economic, social and political aspects of trade relations between the United States and China, detecting their advantages and disadvantages based on PEST, SWOT, Risk identification techniques as well as five forces by M. Porter model competitive advantages for both countries;
- to consider the possible solutions and recommendations on how to improve the current macroeconomic relations between given countries.

### ANALYSIS OF THE U.S.-CHINA TRADE RELATIONS

Since the U.S. and China have cooperated with each other in the economy, they often frayed in trading relationship, but nowadays, the U.S. issued a new statement to increase tariffs to China to 25%, and China also did the same policy to strike back, so the relationship became tensely [9, 11]. The given analysis is based on PEST, SWOT, Risk identification techniques as well as five forces by M. Porter model detecting competitive advantages for both countries.

#### PEST Analysis

The PEST analysis is conducted by integrating political, economic, social and technological factors in the context of the U.S. and China Relations (see Figure 3).

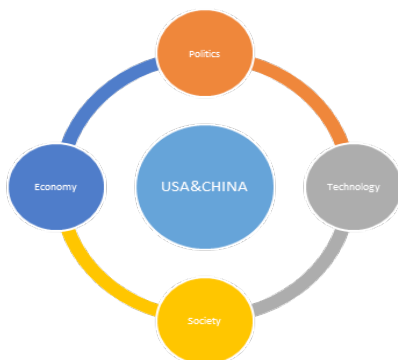


Figure 3 – The U.S. and China Relations in the framework of PEST [1, 2]

*Political factors:* For the U.S., the government issued a new statement to announce that they will increase more than 25% tariffs for exporting products from China [4]. On the other hand, the government of China also made a new measure to increase the same percent tariffs at the same time.

*Economic factors:* For U.S., has a 24% of global GDP, the speed of GDP increasing is 2%, even though the speed of increase is not quick, but it still has base than China, the reserve status of the dollar gives the U.S. a kind of privilege. For China, has a 15% of global GDP, the speed of GDP increase is around 6%, is quicker than the U.S., that shows China has more opportunities in developing economies [4, 6]. With the international position improving, RMB also became a kind of international currency.

*Social factors:* For the U.S., the research shows the population is around 3.2 million, the per capita income is about 3000 dollars for each month, but the gap between rich and poor [12]. For China, the population is around 14 million, but the per capita income is lower than in the U.S., that means American has higher disposable income than China. But Chinese has a habit of saving money, American doesn't like saving money, it's like a model of excessive consumption.

*Technological factors:* The technological strength of the U.S. is far ahead from China [5, 13]. America has many talents in different areas. In the context of Nobel Prizes, we can see America has already made great progress in the technological manufacturing industry. However, now, China also has been developing fast, the government encourages more talents in science and technological area. China industry is transferring from traditional industry to advanced technological industry. And China is among the 20 most innovative economies for the first time now [14].

### **SWOT Analysis**

On the one hand, for the U.S., since the new U.S. policy, it supports trade-protection measures, after 'Huawei' and 'Zhongxing'. These Chinese brands were sanctioned by the U.S. The U.S. wants to continue to use increasing tariffs and anti-dumping methods to make China open market deeply for the U.S. [15].

Strengths: 1) China relies more on America's market, especially the manufacturing industry in science and technology and every year China imports a much agricultural production from the U.S., so in this area America has more initiatives. 2) America has much experience on trading war with other countries, and it's mighty than China. 3) The U.S. can make more policies to limit China, for example, as students visa for Chinese there are more than 350000 Chinese students studying in the U.S. [14]. If trading war occurs, it's difficult for Chinese students to get visa or work in the U.S.

Weaknesses: 1) Population is much less than China, so the number of customers is less if the trading war becomes seriously in the future, the chance of Chinese pay for America will become less, the U.S. will lose much money. 2) America relies on importing clothes and daily necessities from China, if they increase tariffs, the price will also increase, it will lead local people to get much pressure in daily life.

Opportunities: 1) Using increase tariffs and anti-dumping methods, the U.S. can earn more money from China. 2) Protect local manufacturing industries. 3) It will limit the development speed of China.

Threats: 1) The development of science and technology of China has been increasing, many famous Chinese brands (like Huawei and Haier) has been popular all over the world, some production can instead make in the U.S. 2) China has more rights of speaking and improved the position in the world, more and more countries would like cooperating with China.

In contrast, on the other hand, for China, the government also did measures to face trading war.

Strengths: 1) With a large population, China has more consumer groups, China has more choices to pay. 2) China also can issue some policies to famous companies which come from the U.S. (like 'Apple' and 'Starbucks') and live in China; it will become difficult for America's companies to live in China. 3) If China gives up importing agriculture productions from the U.S., they can choose another country.

Weakness: 1) The ability of economy, military and technology of U.S. is better than China, it has more resources, even though nowadays China is developing fast, still has distance from the U.S. 2) The price war in China was considered as 'unfair competition' in the world, due to this problem, for China, it's easy to be attacked.

Opportunities: 1) By increasing tariffs, China also can earn much money from the U.S. 2) China can develop cooperation with other countries, not rely more on the U.S..

Threats: 1) The price of products imported from the U.S. will increase, the Chinese will get much pressure on daily life. 2) It's difficult for companies to export to the U.S., it will lead over capacity. 3) The U.S. can import products from other countries, companies in China will lose demands. Further, based on threats and weaknesses detected, it is possible to identify the possible risks presented below.

### **Risk Identification**

**Financial Risk:** In the trading war, both of two countries will bear the loss, especially in the financial area. For exporting companies, they will face much pressure; even some weak companies maybe go out of business. For people, the price of goods will increase, and when the new statement was issued by America, the stock market of every country tumbled; it had great influences on who is involved in the stock market.

**Political Risk:** The trading War will not only bring risk to the economy but also it will have influences on politics and diplomacy. Between the U.S. and China, both issued statements to resist each other, it's easy to break the cooperation relationship.

**Environment Risk:** Due to America's trade protection measures and China's same way to push back, it will have influence for both U.S. and China in many industries, and nowadays, under economic globalization, many countries will be affected in the trading war.

### **Competitive Advantages**

Now there are also some enterprises in China that have certain competitiveness in the international market. For example, Haier, Huawei, and Lenovo have made gratifying achievements after being the first to go abroad. In 2007, China produced 172 kinds of products, ranking the first in the world and 70% of the world's toys. More than 50% of telephones and shoes, more than 1.3 percent of color TV sets and bags and bags are made in China [16].

According to our calculations, Chinese manufacturing has cut the U.S. consumer spending by \$700 billion in recent years [17]. At the same time, it is cheap consumption of Chinese goods and resources has been accompanied by complaints from companies in these countries that Chinese manufacturing has affected their own manufacturing to some extent. Because Chinese products are much cheaper and more affordable than domestic ones, stores in many countries generally have little revenue at the end of the year.

**Labor costs.** The average wage in our country is one-fiftieth that of the United States, one-twentieth that of Europe, and one-fifteenth that of Japan and Korea. The quality of China's Labor force is high and improving. Since 2008, more than 2 million college students in science and engineering will enter the labor market every year [5]. China's advantage in the number of engineers and technicians will make China more competitive in the field of labor-intensive and technology-intensive industries.

**Home market.** China has a vast domestic market, which is unmatched by most small and medium-sized developing countries based on the international market. The size of this market not only refers to the existing size but also includes the speed of development. China's economy grows at an average annual rate of 7-8%, which makes the domestic market expand rapidly [4]. The vast domestic market can not only promote the formation of manufacturing scale economy but also promote the cost reduction and technological progress within the industry.

### **Competitive Analysis – Five Forces by M. Porter**

The five forces competitive analysis or '5 forces model by M. Porter' or 'Porter's diamond model' contains five main competitive factors that should be considered in the context of the U.S. and China current relations [18]. They are the bargaining power of suppliers, bargaining power of buyers, the threat of new entrants, the threat of substitutes, and, finally, the industry rivalry.

Among the *bargaining power of suppliers*, it should be mentioned the followings:

In China, energy prices were low, low resources tax is one of the advantages. Enterprises are more inclined to cooperate and compete to expand the market together for profit.
The value added to products “Made in China” is generally low.
The advantage of Chinese manufacturing lies in the low labor force, such as the mobile phone industry, the introduction of the foreign screen, processor and other parts, and the low processing cost to occupy the market.
At the supplier level, China's real is at a disadvantage, because of the technology gap, suppliers could, in fact, an advantage in the international business, the restrictions on China's manufacturing industry into the great demand for raw materials to suppliers get huge profits.
The demand for raw materials has also made suppliers very profitable.
In the United States to establish production bases, artificial cost advantage will obviously be greatly weakened.

*Bargaining power of buyers* can be considered the followings:

Making access to foreign markets is the biggest advantage of China products price advantage.
Foreign buyers have many choices, and competition among companies will lead to declining industry profits and saturated markets.

*The threat of new entrants* can be presented as the followings:

There are great obstacles to Chinese manufacturing entering foreign markets.
China creates a niche in foreign markets with its own cost advantage. Production needs raw materials; a large number of raw material requirements may lead to the growth of raw material market price.
The entry of new entrants will lead to competition between enterprises, product prices are bound to fall.

*The threat of substitutes* can be considered the followings:

Energy or technological advances will undoubtedly lead to industrial unrest and innovation.
Now markets tend to be more customization and personalization, volume production of China's manufacturing advantage is likely to eliminate.
The best thing to do is to keep pace with technological progress to eliminate the potential disadvantages.

Finally, among *industry rivalry* it needs to be mentioned the followings:

Most of the companies in the industry, mutual interests are closely linked, the goal is to make my own business relative to the competitive advantage, therefore, is the inevitable result in the implementation of the phenomenon of conflict and confrontation, these conflicts and confrontation, make up the existing competition among enterprises.
Chinese manufacturing already has a certain degree of international visibility and trust.
But there are some negative messages, such as Taobao's fake products.
There is still a gap between brand effect and international famous brands in terms of enterprises.
As a multinational enterprise, in the establishment of after-sales service is obviously more expensive and complex.

‘Made in China’ concept has its own strong cost advantage, but there are multiple challenges in international operations. It includes raw materials, export transportation, tariffs, and international trade policies and so on, the access to foreign markets is greatly restricted. Manufacturing in China should be transformed into a leading technology industry. Cultivating high-tech talents and introducing advanced technology are important ways to eliminate the disadvantages. As far as the China-U.S. trade issue is concerned, it is more likely to develop in the direction of win-win cooperation. Each industry or country plays an important role in the business chain. The best way to do business is to give full play to our strengths and expand the market together.

## SOLUTIONS AND RECOMMENDATIONS

Obviously, the China-U.S. trade war will not only affect Chinese companies and American consumers, but the multilateral trading system will also be more affected. Before talking about the solution of the Sino-U.S. trade war, it's necessary to know about the prospect of Sino-U.S. trade war.

The U.S.-China trade war may not be fully launched in the short term. But if the two sides are not properly managed, it may be gradually upgraded. At present, the trade between China and the United States is still only a partial industry. The U.S. trade sanctions against China's high-end manufacturing and China's trade sanctions against some agricultural products of the United States, such as gradual upgrading will affect more industries.

If the U.S.-China trade war is fully upgraded, it will have an adverse impact on China's high-end

manufacturing development and economic growth. But it will also increase the cost of living of the American people, push up the U.S. inflation, restrict consumption, and bring a shadow to the global economic recovery. From the Sino-U.S. trade structure, the industries with large trade deficits in China are mainly agricultural products, transportation equipment, and mineral products.

Although the U.S. trade protection will benefit some of its domestic industries, it will damage the interests of most industries and consumers. If the United States further increases tariffs on Chinese manufacturing, it will equate taxation with consumers, which will inevitably increase the cost of living for the American people, boots U.S. inflation and constrain the U.S. consumption.

From this perspective, for America, it can be used as the followings. The U.S. should relax its export control to China. The U.S. limits the export of high-tech products to China. The agriculture, energy and high-tech industries are the most competitive industries in the United States, but the United States has long restricted the export of high-tech products to China. Some U.S. research institutions have found that if the United States relaxes its export control to China, its trade deficit with China can be reduced by about 35% [19].

The U.S. should continue to open foreign markets and remove foreign trade barriers. It can create new market opportunities for the U.S. producers. For instance, in 2014 USDA removed restrictions to help farmers export chilled pork to Colombia, live swine to China and cattle to Mexico. The USDA and Canada, in 2014, negotiated and signed guidelines that facilitate exports to Canada valued at over \$300 million [19,20]. Moreover, the U.S. industries should continue to improve productivity and product quality to increase the competitiveness.

For another party, for China, it can be suggested the followings. Unswervingly push forward a new round of reform and opening up so as to unite and strive for international support. The specific measures are as follows:

Improving the non-price competitiveness of export products. The government should increase investment in science and technology and encourage exporting enterprises to innovate independently. They should improve product quality and service so that it can enhance product competitiveness and make Chinese standards be recognized by the world.

To adjust the layout of the market. To reduce the U.S.-China trade frictions, China also needs to pay attention to market development and adjust the market layout. Although the escalating trade frictions between China and the U.S., China still needs to consolidate the European and American markets. Besides, they also need to explore new markets and focus on developing domestic markets to strengthen intellectual property protection and promote industrial structure upgrading.

Treating the U.S.-China trade frictions with a common heart. With the rapid development of China's economy, the current strength gap between China and the United States is narrowing. But the contradictions between the two sides are increasing. So, the trade frictions between two sides might become normal in the future. Competition is the driving force, so they should treat the trade war with common sense.

## CONCLUSION

To conclude, in this research it is considered the study of the current problematic economic issues in trade relations between the United States and China. In this work, it has been studied the current issue of the U.S. and China economic trade relations. It has been analyzed the current economic, social and political aspects of trade relations between the United States and China. It has been detected their advantages and disadvantages based on PEST, SWOT, risk identification techniques as well as five forces by M. Porter model competitive advantages for both countries. It has been considered the possible solutions and recommendations on how to improve the current macroeconomic relations between given countries.

Based on the analysis conducted, it should be sum up there is no winner in this current trade economic situation between the U.S. and China. This problem is not possible to solve using aggressive economic policy based on the interest of one side, as it covers interests of very diverse economic space. The 'trade war' will still bring everyone to negotiate. To solve the problems effectively, it relies on rational negotiation between the U.S. and China. The only diplomatic approach can achieve positive results taking into consideration in detail all features of both parties.

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## РЕЗЮМЕ

В данной статье рассматриваются актуальные вопросы торгово-экономических отношений между США и Китаем. Исследование направлено на выявление проблем и поиск соответствующих решений в рамках данного международного сотрудничества. Проанализированы текущие экономические, соци-



альные и политические аспекты торговых отношений между Соединенными Штатами и Китаем. Выявлены преимущества и недостатки, проведена идентификации ключевых рисков, а также анализ конкурентных преимуществ для обеих стран. Были рассмотрены возможные решения и рекомендации в области стабилизации и улучшения текущей макроэкономической ситуации между данными странами.

### **ТҮЙІН**

Бұл мақалда АҚШ пен Қытай арасындағы сауда-экономикалық қатынастардың өзекті мәселелері талқыланды. Зерттеу осы халықаралық ынтымақтастық шеңберінде проблемаларды анықтауға және тиісті шешімдерді табуға бағытталған. АҚШ пен Қытай арасындағы сауда қатынастарының ағымдағы экономикалық, әлеуметтік және саяси аспектілері талданады. Артықшылықтары мен кемшіліктері анықталды, негізгі тәуекелдер анықталды, сондай-ақ екі елдің бәсекелестік артықшылықтарын талдау. Осы елдер арасындағы ағымдағы макроэкономикалық ахуалды тұрақтандыру және жақсарту саласындағы ықтимал шешімдер мен ұсынымдар қаралды.