



ВСЕРОССИЙСКАЯ АКАДЕМИЯ
ВНЕШНЕЙ ТОРГОВЛИ

US-China Trade War and Its Global Impacts

Moscow, 2020

Causes of the Escalating Trade War between the US and China

In the World:

- Increased role of developing countries, while preserving the same WTO rules (in particular special and differential treatment);
- Slowdown or freezing of the Doha Round (inability to reach agreements between developed and developing countries);
- Rapid growth of non-tariff measures against decreasing applied MFN tariff rates. In general - low transparency of trade policy (including the issue concerning notifications).



In the US:

- Growing trade deficit with major US partners, including China;
- Course on the WTO reform, in particular the Appellate Body. As a result - the work of the AB was blocked in December 2019;
- Accumulation of protectionist sentiments among the owners of factors that have become less demanded over time, in particular low-skilled labor;
- Concerns about China's rapid economic development.



The crisis of the multilateral trading system

Request for protectionism



Trade War Timeline

The official reason for introducing restrictive measures (which may not comply with the WTO rules):

2017 USTR investigation on China's technology transfer policies and IP rights protection was initiated. Findings:

- China uses unfair trade practices that force U.S. companies to "share" technology (e.g., cooperating with Chinese companies as a condition for market access).

Other reasons:

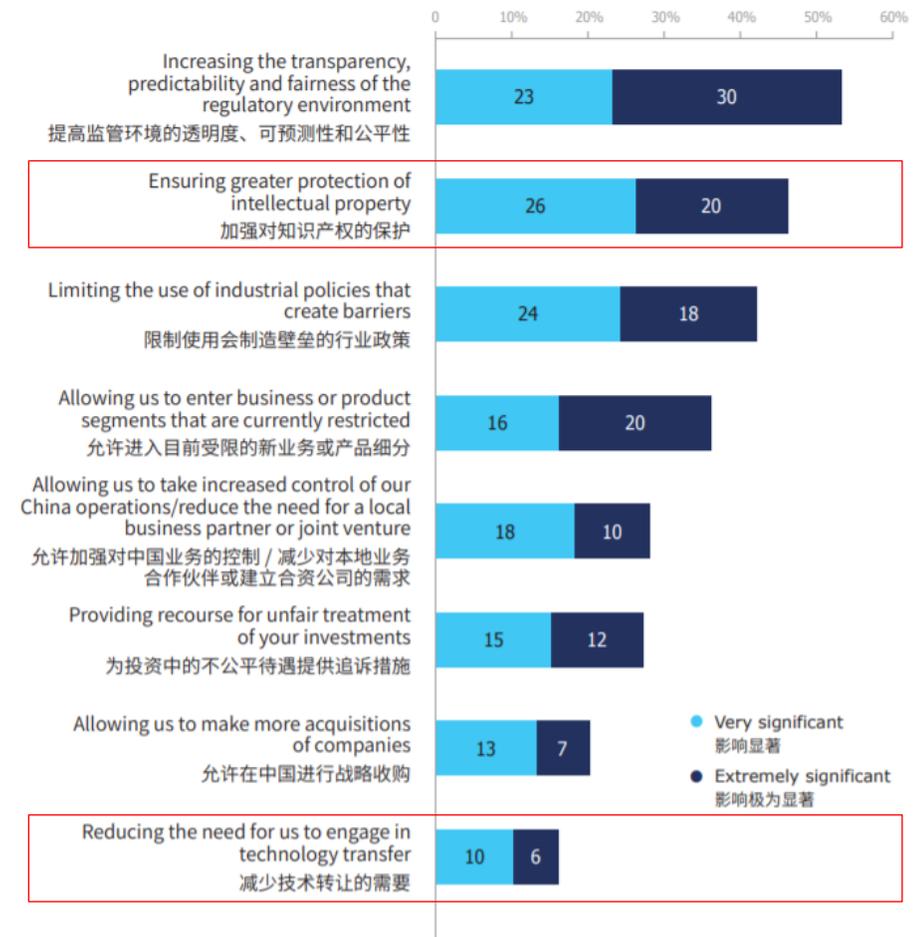
Slowing down the growth rate of China's economic development, including by:

- Impeding the implementation of the country's development program "Made in China 2025";
- Reducing China's competitiveness as a key "location" for foreign companies production facilities. In particular, stimulating the transfer of industrial facilities to the US;
- Re-directing trade flows.

Fig. 1 - Survey among foreign companies operating in China 2018 (in % of the number of surveyed companies (771 pcs.))

How significant of an impact would the following changes to the policy environment have on increasing your company's investment levels in China?

以下政策环境变化对贵公司提升在华投资水平有多大影响?



Source: 2019 China business climate survey report, AmCham China

Trade War Timeline



Key events

2017

August 18, at Trump's request, USTR initiates an investigation concerning China's practices that may infringe the IP rights of US companies.

2018

July 6, the U.S. and China introduce additional tariff rates of 25% for \$34 bn of each other's imports.

August 23, the U.S. and China introduce additional tariff rates of 25% on \$16 bn of each other's imports.

September 24, the U.S. introduces additional tariff rates of 10% for Chinese imports worth \$200 bn, China introduces a similar measure for \$60 bn of U.S. imports (tariff rate varies from 5% to 10%).

2019

May 10, the U.S. increases previously introduced additional tariff rates up to 25% for \$200 bn of Chinese imports.

On June 1, China increases previously introduced additional tariff rates for \$60 bn of American imports

On September 1, the U.S. introduced additional tariffs of 15% on \$125 bn of Chinese imports. China in response introduced additional tariffs on \$75 bn of U.S. imports.

September 11, China exempts 16 types of goods (worth \$2 bn), imported from the U.S. from additional tariffs

2020

January 15, China and the US sign the Phase One Trade Agreement. On February 14, it comes into force.

To sum up: existing mutual restrictions in the form of additional tariffs cover more than **86%** of trade turnover between the U.S. and China.



Quantitative effects estimated for China, the United States, Russia and the World as a result of escalation of trade war

GDP, \$bn			
Region	IP-1	IP-2	Overall change
China	-16,5 (-0,13%)	-30,7 (-0,25%)	-47,2 (-0,38%)
US	-3,0 (-0,02%)	-7,9 (-0,04%)	-10,9 (-0,06%)
Russia	+0,1 (+0,01%)	+0,6 (+0,04%)	+0,7 (+0,05%)
Rest of the World	+4,4 (+0,01%)	+17,4 (+0,04%)	+21,8 (+0,05%)
World	-15,0 (-0,02%)	-20,6 (-0,03%)	-35,6 (-0,05%)

IP 1 - takes into account additional tariffs introduced by the US and China against each other in 2018.
 IP 2 - takes into account additional tariffs introduced by the US and China against each other in 2019.

Methodology: CGE-model GLOBE v1

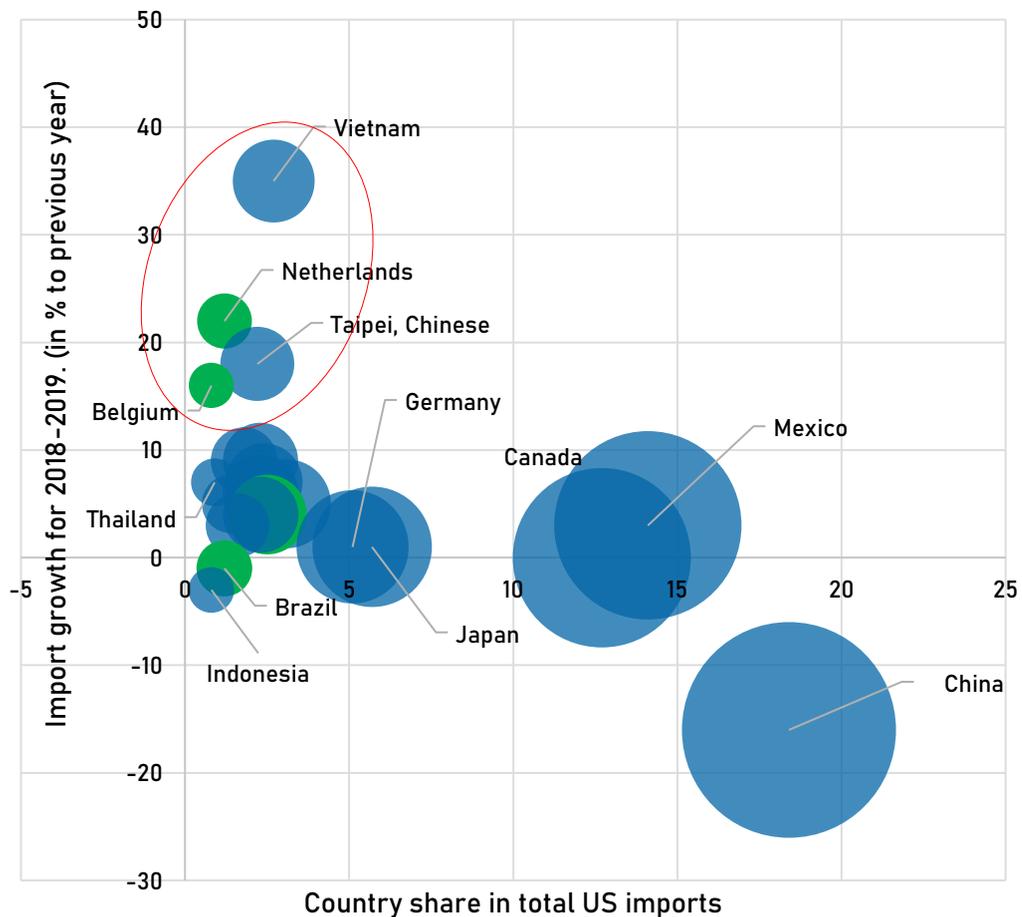
China, \$bn			
Indicators	IP-1	IP-2	Overall change
Exports	-9,6 (-0,40%)	-30,7 (-1,27%)	-40,3 (-1,67%)
Imports	-14,0 (-0,63%)	-13,3 (-0,60%)	-27,3 (-1,23%)

USA, \$bn			
Indicators	IP-1	IP-2	Overall change
Exports	-8,9 (-0,38%)	-9,4 (-0,40%)	-18,3 (-0,78%)
Imports	-9,0 (-0,31%)	-27,5 (-0,95%)	-36,5 (-1,26%)

Source: IMEF RFTA calculations.

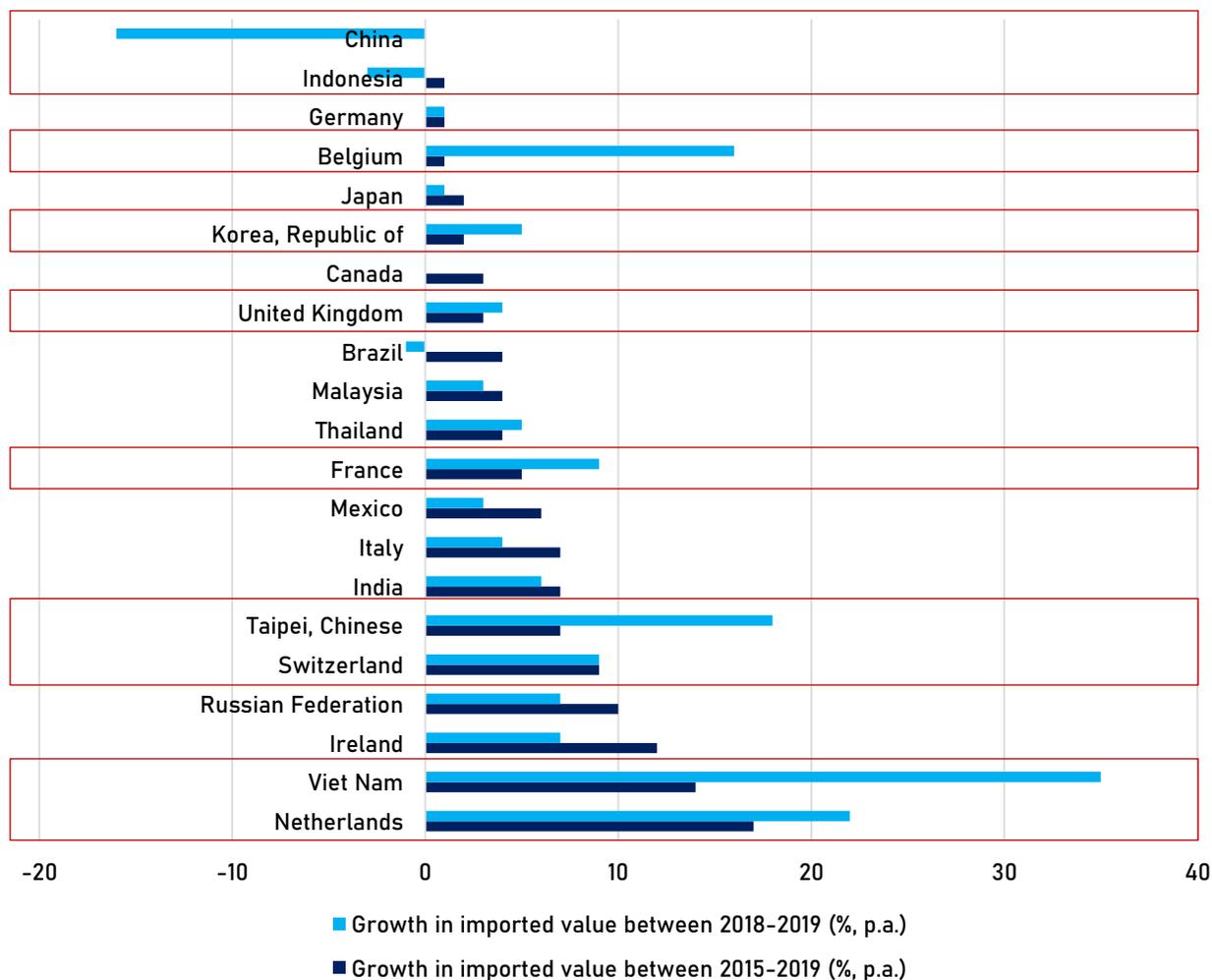
How have trade flows changed during Trade war?

Fig. 2 - Changes in the geographical structure of US imports for 2018-2019.



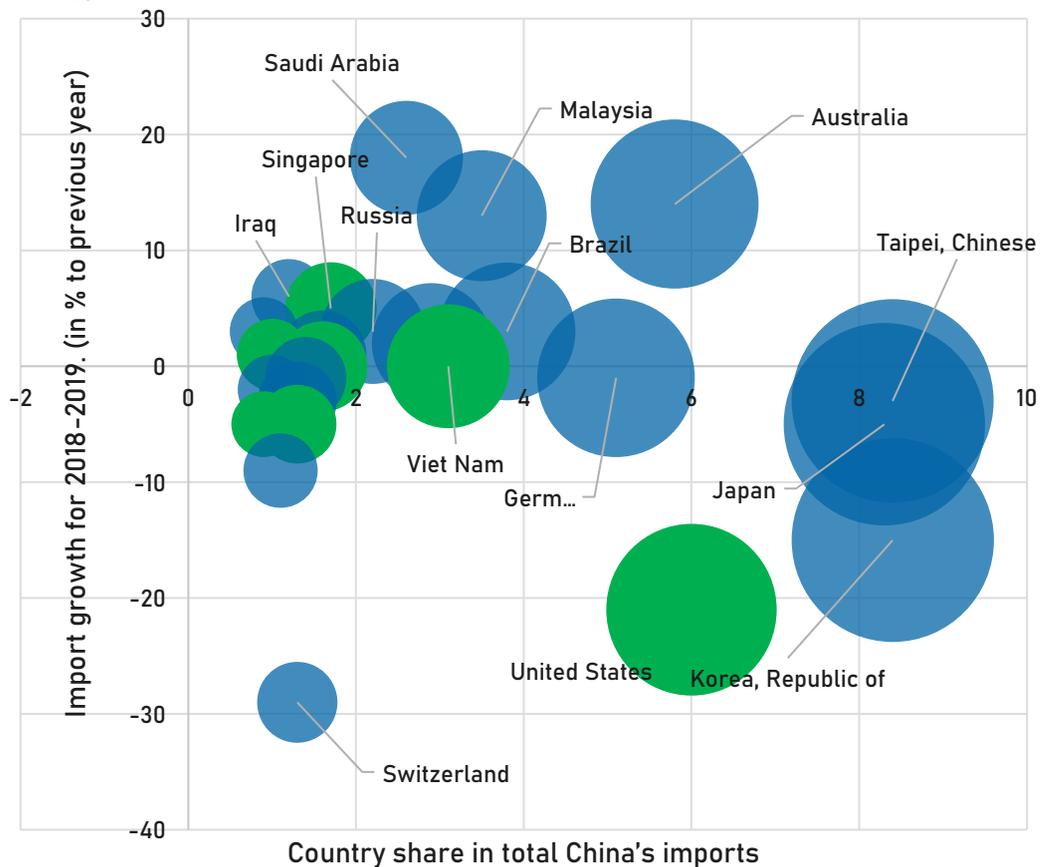
The size of the circles represents the value of import volumes. Green color means that there is a trade balance surplus.

Fig. 3- Changes in growth rates of US imports from different countries



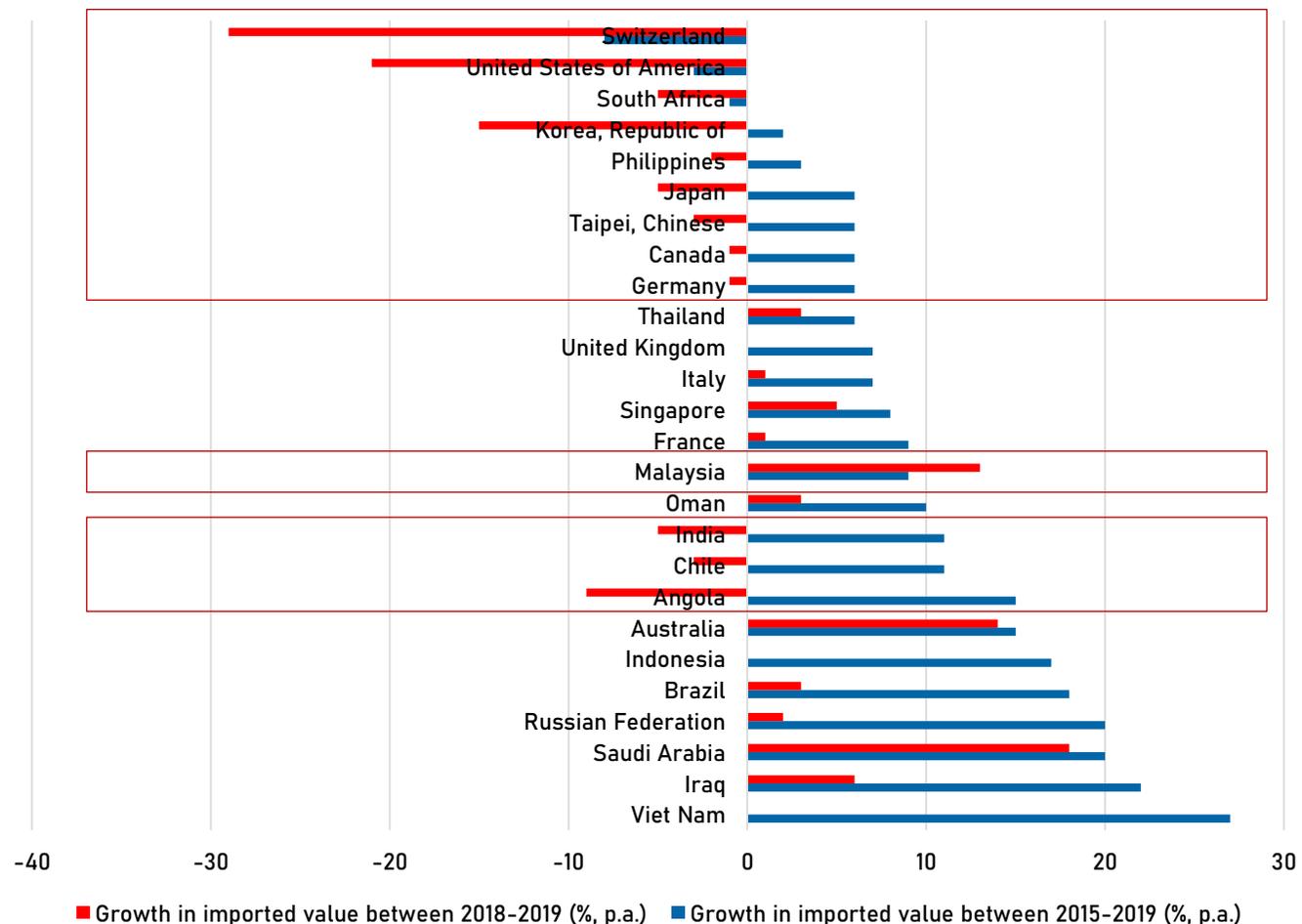
How have trade flows changed during Trade war?

Fig. 4 - Changes in the geographical structure of China's imports for 2018-2019.



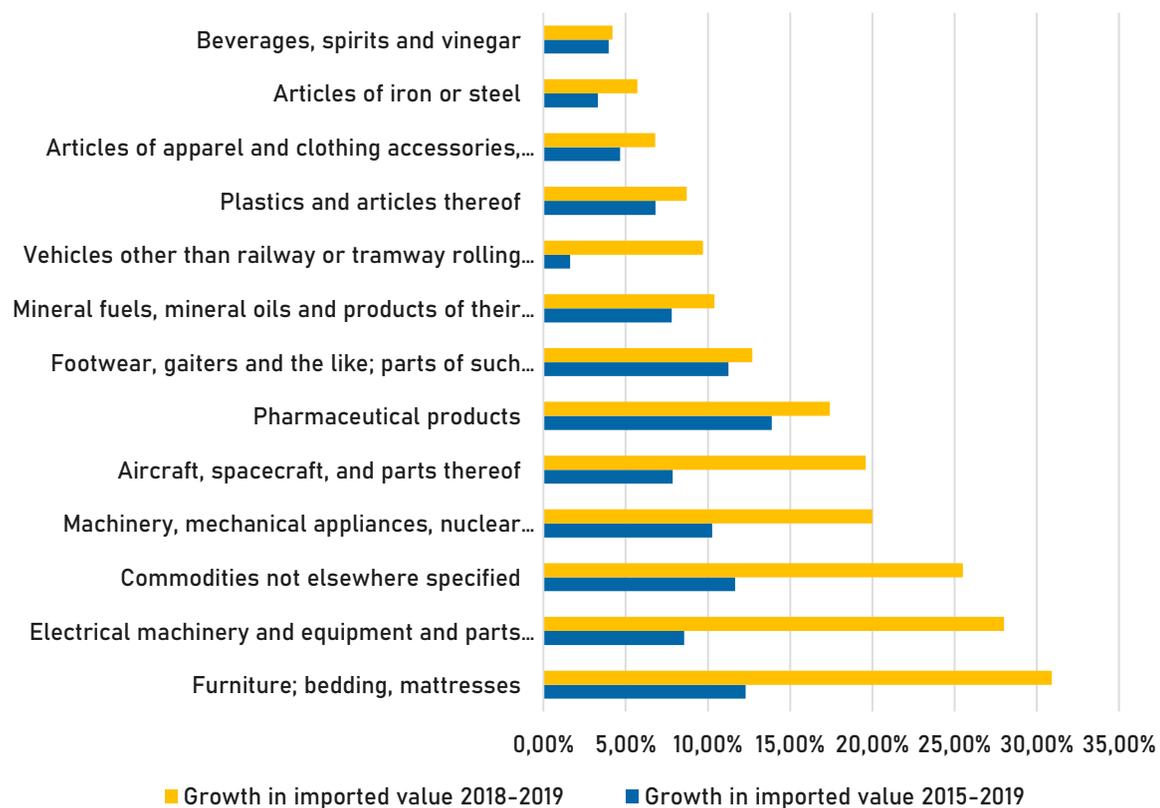
The size of the circles represents the value of import volumes. Green color means that there is a trade balance surplus.

Fig. 5- Changes in growth rates of China's imports from different countries



How have trade flows changed during Trade war?

Fig. 6 - Changes in the US import structure from countries for which significant changes were observed

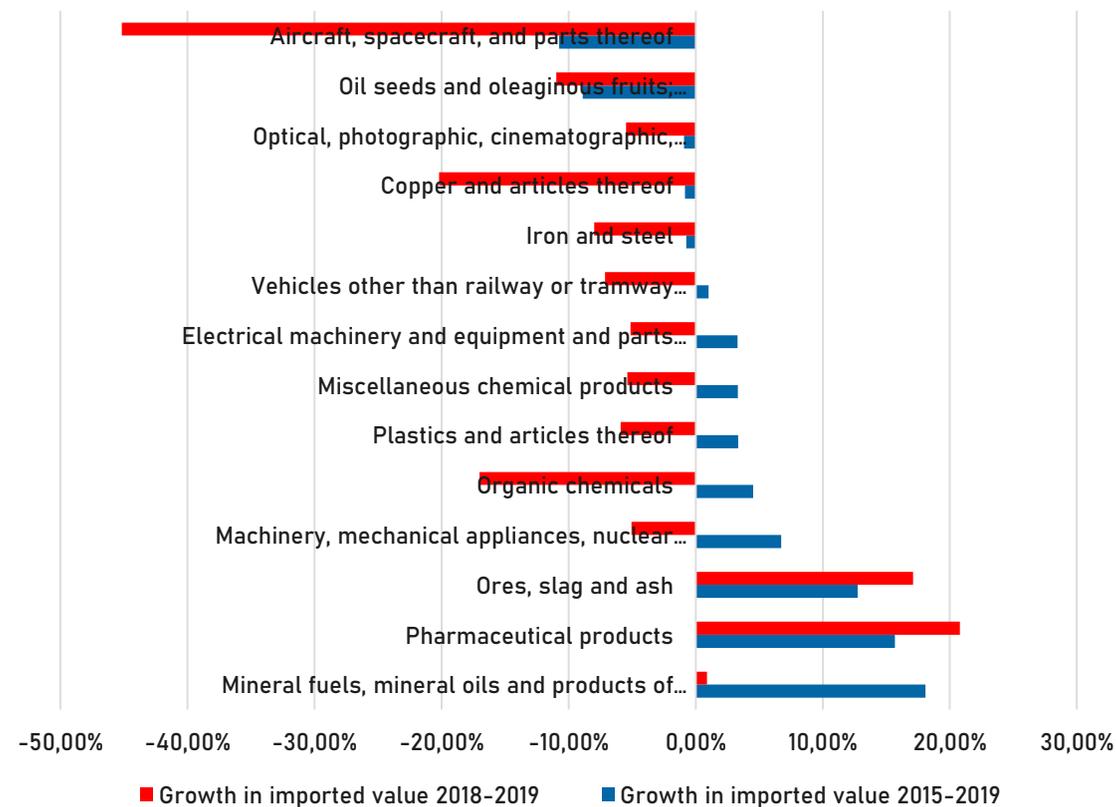


Source: US Census Bureau



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Рис 7 - Changes in the China's import structure from countries for which significant changes were observed



Source: General Customs Administration of China

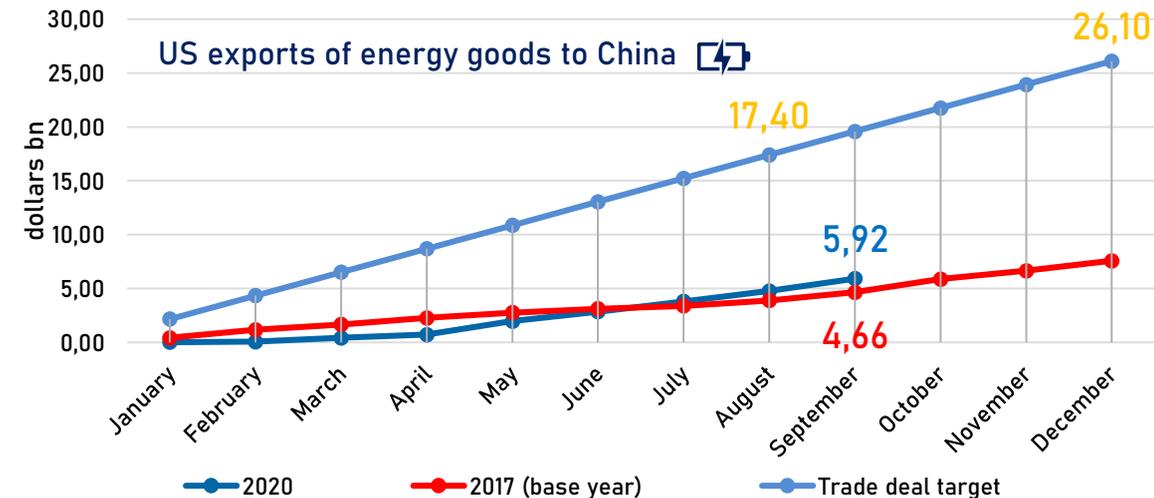
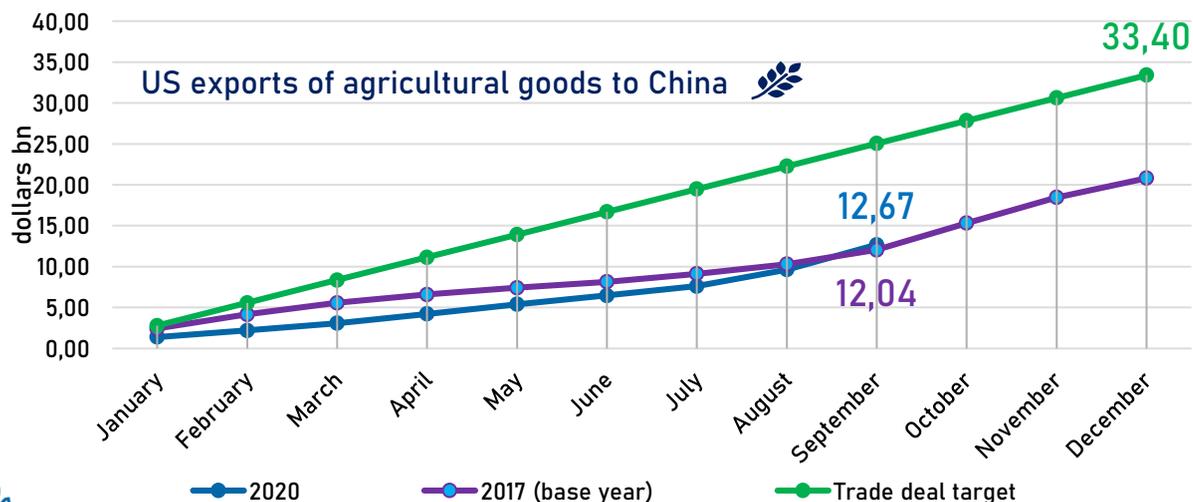
Phase One Trade Agreement: Current progress

Fig. 8 - Level of compliance by China with its obligations regarding purchases of American goods



China has committed to increase purchases of American goods by \$162.1 billion over the period 2020-2021.

	US exports to China (2017 - base year)	Increase in U.S. exports to PRC (2017 was taken as the "base" for the Agreement)		
		Year 1 (2020)	Year 2 (2021)	Total
Industrial Goods	50,2	+32,9	+44,8	+77,7
Agricultural products	20,9	+12,5	+19,5	+32
Energy products	7,6	+18,5	+33,9	+52,4
Total	78,8	+63,9	+98,2	+162,1



Phase One Trade Agreement: impacts on China's trade partners

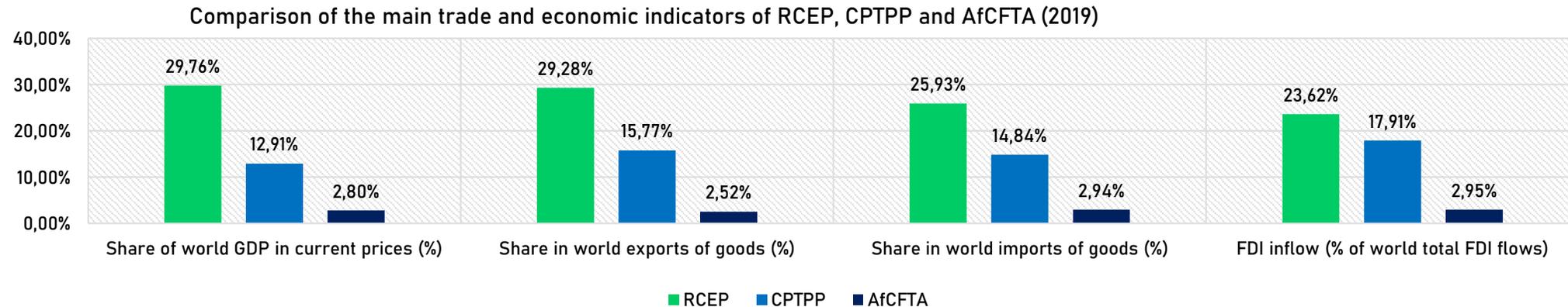
1. The Agreement plays an important role in slowing down the escalation of the U.S.-China trade tensions.
2. One of the main concerns is related to the redirection of trade flows.
 - In particular, the arrangements for purchasing energy products by China are inconsistent with the interests of Russia. Russia's role as one of the key suppliers of energy resources to China is in question.
3. At the same time, China has undertaken a large number of commitments, which are applicable to all foreign companies.
 - They are related to the improvement of intellectual property rights protection regulation, reduction or elimination of a number of non-tariff measures for the supply of food and agricultural goods.



What will happen next?

(Possible steps of the next US President)

- Joseph Biden has noted that he will work with other countries to form an economic bloc to "confront" China. We can expect the U.S. to form new trade agreements or join the CPTPP, as an integration bloc to counterweight the RCEP. By now RCEP is the most significant FTA in terms of trade, GDP and FDI;



- Despite the low probability of achieving Phase One Trade Agreement obligations in terms of purchases of American goods, it is important to note that even despite the pandemic, the Chinese side has been able to achieve import growth rates that are ahead of the 2017 baseline. Given Biden's stance on China, we can expect the continuation of development of relations between the US and China in terms of negotiating the Second phase of the trade agreement..