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The U.S.-China Trade War: Minimal Impact on China's Global Total Trade Thus Far

EXECUTIVE SUMMARY

The trade war between the U.S. and China started in July 2018, when Donald Trump, the U.S. President at the time, followed through on months of threats to impose sweeping tariffs on a variety of China's imports, accusing its unfair trade practices. In following months, the two countries had been embroiled in countless back-and-forth negotiations that resulted in nothing productive but tit-for-tat tariffs, the U.S. banning specific high-tech exports to China, and filing complaints from both sides with the World Trade Organization ("WTO"), all of which consequently leading to the escalation of U.S.-China trade tensions to the brink of a full-blown trade war.

Till the date of this report, the trade war has proceeded through five stages between 2018 and 2021, with multiple tariffs on various products having been put in place by both countries. Currently, **U.S. exports to China are facing tariff rates averaging 21.1%** (compared to an average of merely 6.7% applied to products from other nations). Similarly, **Chinese goods are subject to a 21% tariff rate on average** in the U.S. market (versus the 3.1% average tariff rate that the U.S. had levied on them prior to the series of hikes).

The cause for the confrontation is trade imbalance between the U.S. and China. A trade surplus occurs when exports exceed imports, while a trade deficit is the opposite when exports are less than imports. Obviously, a surplus is preferable to a deficit in the short run. However, a long-term trade surplus can be harmful, if it is the result of exercising protectionism by the government, as it poses a threat of engaging in a trade war. On the other hand, a longstanding trade deficit is not inherently bad if countries that import heavily could simultaneously invest in their economic development. Importantly, when coupled with prudent investment decisions, a deficit can usher stronger and more sustainable economic growth in the future.

The U.S. has a long history of registering trade deficits with the world in particular China. 2020 U.S. goods trade deficit on a global basis set a new record of US$915.8 billion, a yearly increase of 6% or US$51.5 billion, stemming in part from production disruptions caused by the COVID-19 pandemic. U.S. trade deficit with China has been near or in excess of US$300 billion from 2011 through 2020.

The escalated tensions between the U.S. and China have made a severe impact on their bilateral trade. The following are some key observations of the changes to the trade balance between the world's first and second-largest economies since the beginning of their trade conflict.

- Driven by the Phase 1 economic and trade agreement[1] taking effect on 14 February 2020, **U.S. 2020 trade deficit with China reduced significantly back to 2012 level at just over US$300 billion**, a 26% drop from previous high in 2018 when the trade war just started, but **U.S. global trade deficit hit new high in the same year**.
- Meanwhile, **China's international trade continues to grow with minimal impact from the trade conflict and COVID-19 pandemic**, and became the only major economy in the world accomplishing a positive growth with respect to trade in goods of 1.9% and a whopping 27.4% surge in trade surplus

[1] Under the Phase 1 agreement, which was signed on January 15, 2020, China made a number of commitments, the most-high profile of which was to substantially increase imports from the U.S. of agricultural products, industrial products, natural resources, and services

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