THE U.S.-CHINA TRADE WAR: POSSIBLE CONSEQUENCES FOR
THE GLOBAL ECONOMY AND RUSSIA

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Introduction

More than seventy years of cooperation within the multilateral trading system bring the world to the threat of a global trade war triggered by tensions between the U.S. and China. The insight in all of international economics that there are mutual gains from free trade is argued by one of the most powerful economies in the world.\textsuperscript{1} The nature of the current challenges is complex due to the interweaving of economic, political, technological and cultural clashes. The U.S. approach to China recognizes long-term strategic competition and readiness to use its power to stop Beijing from reshaping the multilateral system to own advantage.

A trade war between countries does not bring positive effects for domestic economies in the long run and harms a multilateral trade system. Trade tensions between countries slow down economic growth and development of participating economies, inhibit international trade and undergo rules of fair trade environment. No one wins a trade war. The erosion of trade relations led to managed trade between the U.S. and China.

The U.S.–China trade talks started to draw increasingly the attention of scientists, policymakers, business circles, think tanks since the beginning of Trump’s Presidency. The phenomena of modern trade relations emerged when the two countries became engaged in a full-blown trade war. The trade war is not an unknown topic in the international trade literature but distinguishable characteristics of the U.S.–China trade war make it very special in terms of trade policy analysis at the modern stage.

The present paper includes theoretical observations of trade wars by J. Conybeare and Günter S. Heiduk and Kar-Yiu Wo.\textsuperscript{2,3} Conybeare distinguishes two patterns: trade war with asymmetrical payoff where weak state initiates the trade war,
not realizing that stronger state will not only win, but also force a weaker to make commitments in its favor, and symmetrical trade war, where relatively strong powers confront each other engaging in harmful tit-for-tat attitude. According to the present classification, the USA-China trade war is the second type of pattern as the U.S. is deemed the Great Power through history and China is the Raising Power of the new century.

Günter S. Heiduk and Kar-Yiu Wo provide with analysis of the USA-EU «mini-trade war» highlighting that retaliatory measures even so allowed by Dispute Settlement Mechanism are not transparent, harmful for different sectors of the economy of a punished party, for third parties economic interests and with a negative incalculable impact. Authors bring us to the conclusion that the trade war is better not to start due to its exhausting effect on involved economies.

The different schools apply their theories to explain the nature of trade war (better to say in the provided context - tariffs war). Many economists (N. Kaldor, 1940; H. Johnson, 1953; C. Rodriguez, 1974; P. Krugman, 1991; B. Lockwood, K. Wong, 2000; C. Syropoulos, 2001; K. Miyagiwa, H. Song, H. Vandenbussche, 2016) follow optimum tariff theorem, assuming that under certain conditions country may gain by imposing tariffs on its trade partner, even while facing retaliation. However, the present paper states that in practice governments do not have the detailed information to impose a precisely optimum tariff, therefore states use the terms of trade argument to justify its protectionism measures as necessary to rebalance trade.

During the period of domestic industrialization and up to the post-war period, countries (Britain, the U.S., EC, and Japan) were using protective measures to establish and then to expand their industries abroad and accumulate trade surplus - that was largely in the spirit of mercantilism. Some see (B. Milward, 2019) toady’s

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protectionism as a consequence of populistic wave that has given a more inward-looking approach to international trade and move towards neo-mercantilism.

Several studies on international economics state that during the last two decades the U.S. has followed aggressive trade policy because of the weakening of its competitive position. Zeng Ka makes interesting observations that less dependent on American markets (EU, Japan) countries yield concession under the pressure of American coercive trade diplomacy more often than heavily dependent on export to the U.S. and having less bargaining power (China, Brazil, India). He also found out that the concept of democratic peace is not applicable to trade issues unlike military conflict; particularly it does not prevent democratic states from trade disputes with one another. The type of regime does not influence the probability of a trade war, but has an impact on the way to resolve trade conflicts. Depending upon the structure of bilateral trade states more or less likely to start a trade war.

Director for Asia studies at the Council on Foreign Relations, Elizabeth Economy reports that even though trade war has become possible under Trump, it indicates far more than President Trump’s desire to rebalance trade. The trade war is «the culmination of decades of pent-up frustration within the United States over China’s failure to make good on the promise of its 2001 accession to WTO: to open its markets, develop transparency and the rule of law within its trade regime, and protect intellectual property (IP)» (E. Economy, 2019). She concludes that trade war is the part of the broader geopolitical competition which invokes the decoupling of two major economies and confrontation of two models of development.

Political economists (C. Shaffer, 2003; R. Baldwin, 2006) see trade disputes as a result of the pressure of interest groups on the state. Gregory C. Shaffer explains the aggressive approach of the American trade strategy by the proactive role of its private business in litigations and studies the mechanism of public-private partnership. The author argues that the U.S. trade unilateralism is the result of «disproportional
openness of the U.S. in comparison with foreign markets in the increasingly competitive globalizing economy». ⁴

Historians and philosophers put the hypothesis of inter-civilization conflict, for example the Clash of Civilizations hypothesis (Huntington, S.P. 1998.). It states that in the post-Cold War period the dominating source of discord will be cultural, and dissimilarity in culture will lead to clashes over a range of issues including trade. G. Gokmen studies the hypothesis from an economic perspective and empirically proves that the negative influence of cultural differences on trade has increased over time.⁵

Finally, the application of political science and international relations approaches tells us that the U.S.-China trade war is politically driven conflict for the spheres of domination and global leadership. The trade war is a way to settle down opponents on the international scene and disturb its economic power.

The issue of competition for global leadership between the U.S. and China has become the subject of several studies before the trade war starts (James M. Dorsey, Ivo H. Daalder and James M. Lindsay, John G. Glenn, Pauken Ii Thomas Weir). The analysis of the U.S.-China geopolitical positions brings to the observation that the trade war is a tool to constrain China’s participation and ambitions in global governance. BDI (Federation of German Industries) policy paper «Partner and Systemic Competitor – How Do We Deal with China’s State-Controlled Economy?» outlines the long-term systemic challenges posed by China from the side of the EU.¹¹

James M. Dorsey in his book «China and the Middle East» reports that China has significant economic and security interests in the greater Middle East particularly for the realization of ambitious project «One belt – One Road». The U.S. has strong motives to demonstrate to China its dominance over regions. ⁶ Ivo H. Daalder who has served as the United States Ambassador to the NATO in co-authorship with

James M. Lindsay in the book «The empty throne» also raise the issue of American global leadership, which is under threat because of the effect of globalization that leads to the «rise of the rest», particularly the rise of China. Authors argue that the misguided foreign policy of the U.S allows China to fill the void of global leadership abandoned by Trump.7

John G. Glenn in his book «China’s Challenge to U.S. Supremacy» concludes that the USA as the Great Power faces a typical problem of maintaining its leadership.8 In his point of view, by advocating globalization and expanding its overseas presence including production, the USA contains itself within a system that may destroy itself. America has established a global order that is beneficial for the rise of China as it gives the opportunity of the technology emulating of the lead state.

I. Daalder and J. Lindsay also provide a personal level of analysis reporting that lack of diplomatic skills, economic and foreign policy knowledge’s and arrogance of Trump contributed to changes of the U.S. foreign policy towards tough and uncooperative attitude. However, the book exaggerates the failure of Trump’s policy. Robert D. Blackwill, Henry A. Kissinger writes that Trump’s «individual foreign policies are substantially better than his opponents assert». According to the White House report «The historic results of President D. Trump’s first two years in office», due to President Trump’s pro-growth policies real GDP growth exceeded 3% over the last four quarters, more than 5 million jobs have been created since his election.9 R. Blackwill sees toughening of the U.S. policy toward China as a much-needed.10 He has pointed out concerns about the expansion of China's state-dominated economy and market distortion through state intervention. However, Trump’s methods of coercion diplomacy and unilateralism are not justified. In contrast, the paper shows

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6China and the Middle East by James M. Dorsey, 2019, p.53-54
that for the EU in order to compete with the emerging world power of China it is necessary to strengthen its competitiveness.\textsuperscript{11} The legitimate way to challenge China for breaking commercial practices and trade laws is within the WTO.

While in the international literature some fundamental theories explain preconditions for trade conflicts and tariffs wars, the U.S.-China trade war is a qualitatively different phenomenon. The ongoing U.S-China trade war is explored mainly in periodicals. The present paper aims to fill the gap in underdeveloped theoretical issues and to give the most recent quantitative estimations of the U.S-China trade war.

The present paper explores the theoretical aspects of the U.S.-China trade war through different perspectives. The paper contributes by examining methods used by the U.S. and China in the trade war. It also aims at classifying stages of conflict escalation. In addition, the work sheds light on the U.S. trade policy during the last three decades and the United States' involvement in trade disputes.

The work follows the conventional trade model to estimate the quantitative result of the trade war between the U.S. and China. According to the model, raised tariffs on foreign exports lead to lower demand and inflict export losses of targeted countries. Retaliation from foreign countries in turn leads to export losses for conflict imitators.

Trade tensions between two powerful economies - the United States and China - rose despite their strong enough economic tie-ups and affected the world economy. The research goal of the present paper is to study theoretical aspects of a trade war and analyze its consequences for the world economy and the Russian economy particularly. This aim implies the following tasks:

1. To explore the nature of trade war, its definition and reasons;

2. To examine methods and instruments of the trade war and to define stages of the trade war escalation;
3. To analyze the modern trade wars;
4. To learn the reasons for the trade war initiation by the U.S. against China;
5. To consider different scenarios of the U.S.-China trade war and to estimate its impact on the global economy;
6. To estimate trade war impact on the economy of the Russian Federation.

The first chapter of the work puts a theoretical framework for studying the trade war phenomenon. The nature of trade war is explored through different theoretical approaches, among them international economics and international relations fit the most to explain the U.S.-China trade war. Case studies on several trade disputes involved the U.S. and its major partners examined. Retrospective analysis of the U.S. trade policy towards China based on historical observations allows identifying the U.S. motives and problems of bilateral trade relations.

In the second chapter causes of the trade war examined in several dimensions by using comparative, statistical and legal analysis of trade relations between the U.S. and China. Quantitative estimations of trade war consequences are based on the conventional trade theory that means that the higher the tariffs are the lower the demand for imported products. The paper provides the most recent results and takes into the account impact of all tariffs tranches issued by both parties.

The paper tests hypothesis that the U.S-China trade war is mutually harmful to the parties involved. To investigate the effect of the trade war we will compare trade in tariffed products dynamic before and after the trade war has been started. The following resources allow us to estimate export losses of the U.S. and China as a result of tariffs.
1. The U.S./China imports quarterly data at the 8-digit level of Harmonized System from the U.S. Census Bureau/ China National Customs database for the last 5 year;

2. Disaggregated at the 8-digit level of HS into two categories data: imports from China/U.S. of commodities subject to additional tariffs that came into four tranches and imports of commodities that are not under either of four tranches. The tariffs list are published by respective national official resources;

3. The value of each product position in each of four tranches in dynamic (Q1-2014-Q42019);

4. The cumulative value of product positions that are not under either of four tranches (Q1-2018-Q42019).

On the bases of the aforementioned data we will calculate export losses of the U.S./China by comparing the dynamics of trade in tariffed versus non-tariffed products. Also, we will compare the U.S/China export losses as a share of total export to China/U.S. and as share of global exports. The impact of trade war tariffs on the U.S. imports growth of products subject to tariffs versus coming under normal rate from China is analyzed using cross-section regression with dummy variables.

The present paper explores the substitution pattern of U.S/China manufactured imports in the course of the trade war by comparing imports of tariffed products from its next largest foreign supplier. To fulfill the task the following trade data collected:


2. Disaggregated data on manufactured imports of commodities subjected to the cumulative list of tariffs at the 8-digit level of HS

3. Separated value of more than 10000 and 7000 imported commodities subjected to trade war tariffs by the U.S./China from its respective major suppliers.
4. The value of trade calculated at the previous step aggregated in product groups according to the HS-2 level.

Using obtained data we will analyze the annual value of the U.S./China imports from their major suppliers at the beginning of trade war (2018) and in 2019 (when all lists of tariffs were in force). We will compare trade diversion effects on the benefits of the U.S and China’s major suppliers.

The present work uses two dimensions legal analysis (content and strength) to access the Economic and Trade Agreement between the U.S. and China signed in January of 2020. Furthermore, the paper estimates the impact of achieved commitments on the expansion of China’s imports from the U.S. The hypothesis of the negative impact of the trade war on the Russian economy through the energy sector is tested. To estimate the extent of trade distribution in the favor of the U.S. the following data is obtained:

1. Data on China’s imports from the U.S./Russia of manufactured products, agricultural products and energy specified in The Economic and Trade Agreement between the Government of the United States Of America and the Government of the People’s Republic of China at HS-4 level.

2. Calculated the U.S./Russia’s share in China’s imports of manufacture, agrifood and energy as of 2017, before the trade war.

We will construct the predicted share of the U.S. in China’s imports as a result of the expansion of Chinese purchasing from the U.S. in 2021 treating 2017 as a baseline.
I Theoretical aspects of trade wars

1.1 Definition and reasons of trade wars

The first chapter sheds light on underdeveloped theoretical issues of the U.S.-China trade war as a phenomenon of the multilateral trading system. The pattern of a trade war is explored through different theoretical perspectives and historical observations. Though the literature provides alternative examples of trade wars, or tariffs wars, the analysis finds that the nature of the U.S.-China trade war is qualitatively different and unique. The trade war, unlike other examples, happens in the era of multilateralism and the existence of the WTO. Simplistic points of mercantilism raised by Trump do not fit the complex nature of trade. The trade war between the U.S. and China is not just about trade and protectionism, but also about competition for global dominance.

The tariffs war is not a fully new topic for the history of trade relations; among the earliest references are The Anglo-Hanse trade wars between the 14th and 17th centuries, a 10-year tariff war between France and Italy in the 1880s and 1890s.\(^2\)\(^12\) The latest prominent trade war of the 20\(^{th}\) century was U.S. Hawley-Smoot tariff of 1929, which is widely blamed as one of the reasons that led to the most terrifying military conflict in the world.\(^14\) One should not underestimate the impact of the trade war on geopolitics along with the economic consequences.

Though mercantilism substantiated yet in 16th -17th centuries in its pure form does not take place today, Trump has embedded it in the trade policy of the U.S., focusing on the deficit in goods. The period of mercantilist theory relevance, from Renaissance epoch to the middle of the 18\(^{th}\) century, was covered by tariffs wars. In this period wealth was considered as the source of political power, states’ primary interests were acquisition and maximizing of its well-being through the promotion of
domestic production, reduction of purchasing from abroad, accumulation of precious metals. The core of mercantilism doctrine is the active participation of government in trade regulation to protect the national industry to ensure that domestic goods are of high quality and production process organized to minimize costs. The government considered being a complete entity exercising self-sufficient trade policy that directed against other states in the field of commerce. Mercantilists believe that country benefits from active trade balance. T. Mun says in England's Treasure by Foreign Trade, we must «sell more to strangers yearly than we consume of theirs in value». Trump has the same point of view on bilateral trade with China.

Despite the common view that mercantilism was «an irrational social order», the American economy was built on key principles of mercantilism for over 100 years, starting with Alexander Hamilton in 1791. On the early stages of its development, states need a certain degree of government intervention and protection from foreign competition to establish infant industries, but it is not the case of today’s economic reality of the U.S. However mercantilism faded and later it was changed by classical political economy and free trade concept trade.

New economic thinking pioneered by Adam Smith further weakened the mercantilist system prevailing in the 18th century. Technological advancement and industrialization underpinned economic development in Europe during the second half of the 19th century and spurred trade cooperation through a series of bilateral trade treaties that significantly lowered trade barriers and evolved into a de facto multilateral non-discriminatory network of agreements. The United States and Latin America remained relatively protectionist in this period, while Asian, African and

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other countries were being forced into a form of cooperation driven by colonial relations of imperial design.\textsuperscript{14}

However, the end of the 19\textsuperscript{th} prior to the war of 1914 was characterized by the slackening of international cooperation, including on trade matter. Agricultural producers and industrialists voted for protection, as consequences several countries imposed high trade barriers. The period was characterized by instability and unpredictability with respect to trade policy, and as economic conditions deteriorated in the late 1920s, the trade war provoked by the Smoot-Hawley tariff (1930) aggravated the economic crisis that resulted in shrinkage in trade flows by 60\% between 1929 and 1932.\textsuperscript{14} The improvement in international cooperation began with the introduction of the Reciprocal Trade Agreements Act of 1934 that was based on MFN principle and reversed the trend towards the reduction of high protection levels prevailing in the mid-thirties.

The institutional order created after World War II was designed to cope with post-war consequences and to eliminate reasons for its reappearance. Unilateral protective trade measures, unregulated public activities and monetary measures had become subject of international agreements within Bretton Woods System and GATT in order to prevent confrontation of capitalism of blocks and trade war.\textsuperscript{15}

There is a need to distinguish the trade war of the XX century and the phenomenon of the trade war nowadays. What is meant by the trade war of the inter- and post-war period is a general increase of protectionism in line with the deterioration of economic situation domestically or beggar-thy-neighbor policy. The USA-China trade war is unique since it is a bilateral confrontation rather than a multilateral trend of increasing protectionism to offset weak domestic demand. The nature of the USA-China trade war is different from what was perceived under this

\textsuperscript{15}WTO and Regional Integration.// A. Koval and R. Torrent. URSS. 2018. – P.5-7.
term before since nowadays trade relations are regulated by WTO legislation and both China and the USA are its Members. The conflict between the U.S. and China is characterized by the geopolitization of their trade policies. Neglecting the rule-based system of trade by the two largest economies may have a bad spillover effect on the world.

The U.S. and China’s actions have undermined the effectiveness of the Dispute Settlement Mechanism. It might seem like a paradox that one of the key advocates of liberal trade and founding fathers of the WTO – the United States – made under Tramp Administration a U-turn in its trade policy and defends now the so-called «managed trade». In contrast, China which has been reluctant in the past to open domestic market advocates the principle of free trade now, but progresses slowly with domestic structural reforms that are needed to eliminate trade distortions

GATT/WTO Agreements do not provide the definition of a trade war, and the trade war has never been on an agenda of Ministerial Conferences. The present paper adopts with small modification definition of the trade war given by J. Conybeare. According to him, the trade war is sustained, protracted, and high-intensity international conflict «where states interact, bargain, and retaliate primarily over economic objectives directly related to the traded goods or service sectors of their economies, and where the means used are restrictions on the free flow of goods and services».2 Ka Zeng further clarifies the definition by adding that trade wars are different from politically motivated trade sanctions and low-intensity trade conflicts with minor consequences.16 Empirically economic objectives of the trade war are hardly separable from political motives. Ka Zeng notes that routine customs decisions on tariffs are not a trade war.

With respect to quantitative characteristics it is not easy to estimate which amount of trade should be affected taking into account that countries may implement non-tariffs measures. Simon J. Evenett and Johannes Fritz to characterize jumbo protectionism suggest the criteria of at least 10 bln. U.S. dollars of the trade covered with distortive measures – quite conservative to compare with the actual value of trade hit in the U.S.-China trade war.\textsuperscript{17} As a result of only one round of retaliation, tariffs hit 68 bln. of U.S. dollars of cumulative trade value. It inflicted 8 bln. U.S. dollars of export losses for China and 13 bln. U.S. dollars of export losses for the U.S. or 2% and 9% of total annual export to each other. Export losses of both the U.S. and China as a result of the implementation of the first tariffs list only are accounted for on average for 0,07% of their GDP, which seems modest, but it constitutes cumulatively the annual GDP of Bosnia and Herzegovina in current U.S. dollars. There are the following characteristics of the trade war that distinguish it from trade spat:

— High level of conflict intensity: back-and-forth negotiations, the involvement of the top officials of the government, decisions are made on the top executive level;

— Politically driven conflict;

— At least one round of retaliation from targeting party, tit-for-tat strategy;

— Escape of the WTO framework and engagement in punitive tariffs and non-tariff measures;

— Average export losses of at least 5%;

— Multisectoral impact (agrifood, industrial goods, miscellaneous manufactures, minerals…).

This is clearly a case of USA-China trade tensions since China has been responding at least with five retaliation rounds on American tariffs, the conflict receives intensive attention of third parties, international institutions, think tanks, mass media. Political leaders of conflicting countries made decisions that break the WTO rules. National security exception, as the announced reason for introduction by the U.S. of higher tariffs on steel and aluminum, was invoked out of procedural requirements, dispute resolution process was abandoned and retaliation measures were not authorized. The U.S. - China trade war is also not a dispute over one economic sector, but it affects a strategically wide range of products.

The table below summarizes different theoretical perspectives to explain what the trade war is.

Table 1 – The U.S.-China trade war from different theoretical perspectives

<table>
<thead>
<tr>
<th>Theory</th>
<th>Explanation</th>
<th>Application</th>
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<tbody>
<tr>
<td>Comparative Advantage</td>
<td>• Trade conflicts are the result of eroding the economic competitiveness of the developed world. Countries with competitive trade structures are more likely to engage in a trade war than countries with the complementarity of bilateral trade (J. Conybeare).</td>
<td>Zeng Ka. Trade Threats, Trade Wars: Bargaining, Retaliation, and American Coercive Diplomacy. The U.S. in order to maintain its leading position in trade has engaged in trade conflicts, some of them led to tariffs and trade wars. Coercive trade diplomacy of the U.S. has met the resistance of China to make concessions. The U.S. and China trade relations are becoming more competitive, but still the U.S. has a comparative advantage in capital goods, China - in consumer goods. The last fact implies a higher cost of engaging and the trade war and division of domestic constituencies (import-using vs. import-competiting and export-seeking).</td>
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<td>Neo-mercantilism</td>
<td>Contemporary protectionism is the new orthodoxy, accompanied by a hostility aimed at global free trade. The initiation of trade war signals a major shift towards the inward looking international policy.</td>
<td>Bob Milward. International Trade and Sustainable Development Economic, Historical and Moral Arguments for Asymmetric Global Trade. The U.S. trade policy is based on mercantilism theory where wealth equals trade balance surplus and world trade is a zero-sum game. Guiding by those principles the U.S. imposed punitive tariffs on China products.</td>
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<tr>
<td>Antiglobalist approach</td>
<td>Supporters of globalism who benefit from it insist on status quo keeping in trade policies Economic agencies that lose due to domestic unemployment and higher competition from foreign producers oppose globalization value and welcome economic nationalism.</td>
<td>Pauken Ii Thomas Weir. U.S. Vs China: From Trade War To Reciprocal Deal. «US-based MNCs, investment bankers, international business lawyers, lobbyists, leading hedge fund managers» and others who benefited from liberal trade regimes want a business with China as usual. Poor workers voters form «Rust Belt» States (area of heavy industries and steel production) pursue «the America First» approach and oppose globalism values.</td>
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<tr>
<td>Theory</td>
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<td>Economic liberalism</td>
<td>Free trade serves to global interests, but it is opposed to government intervention distorting open competition. Trade war indicates problems of the co-existence of two different models of development, confrontation of communism and capitalism. (E. Economy, Kenneth Rapoza, Wang Jisi) International liberal order with the U.S. centered power is undergoing a crisis. China offers a contrasting model of state-led capitalism.</td>
<td>Elizabeth Economy. C.V. Starr Senior Fellow and Director for Asia studies at the CFR. The trade war is a shift to at least a partial decoupling of the two economies as part of a much larger geostrategic competition, primarily between the U.S. and China but also more broadly between two developmental models. Meredith A. Crowley. Trade War. The Clash of Economic Systems. Endangering Global Prosperity. The integration of the Chinese unique state capitalism model into the world trading system is becoming difficult.</td>
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<tr>
<td>Optimum tariff theorem (N. Kaldor, 1940; H. Johnson, 1953; C. Rodriguez, 1974; P. Krugman, 1991; B. Lockwood, K. Wong, 2000; C. Syropoulos, 2001; K. Miyagiwa, H. Song, H. Vandenbussche, 2016)</td>
<td>Under certain economic conditions and precisely calculated optimal tariff structure country may gain by imposing tariffs on its trade partner</td>
<td>The U.S. imposes tariffs on China to lower the demand for imports and decrease its bilateral trade deficit. In practice, in a multilateral trade regime it is difficult to calculate optimum tariffs. The objective function of the U.S. Administration is unknown. Moreover, WTO Members apply tariffs on an MFN basis.</td>
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<td>Game theory (Jake McCGwire) «Non-rational players» (Kreps, Milgrom, Roberts &amp; Wilson, 1982) Prisoners dilemma (N.Kaldor)</td>
<td>Acting individually countries tend to choose protectionism to be better off. The trade war is a unique Nash equilibrium. In the absence of cooperation prisoners dilemma appears.</td>
<td>Trade war - a situation when countries acting unilaterally to protect the domestic market, but leaving worse off as the best possible outcome is not achieved. Mistrust between the U.S. and China and the inability to reach Pareto optimal outcome led to prolonged rounds of tariffs retaliation, leaving both countries with export losses.</td>
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<td>Political economy (Gregory C. Shaffer 2003) (Baldwin, 2006) • Two level approach (Zeng Ka, 2019)</td>
<td>Tariffs are the result of the lobbying of domestic constituencies. Two-level game approach: domestic and international arenas simultaneously affect trade negotiation.</td>
<td>Trade war scenarios depend on how much it meets the interests of the lobbying group because it is linked to Trump’s chances to be re-elected. For example, Phase One of the Peace Deal favors the U.S. domestic constituents in front of the upcoming November Election.</td>
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<tr>
<td>IR and political science (Graham Alison) • Realism</td>
<td>States secure their national interests. Rise of the rest (China) challenges the domination of the Great Powers (The U.S.). The trade war is the instrument to constrain the development of rising powers.</td>
<td>On December 18 of 2017, Trump issued National Security Strategy to Advance America’s Interests calling that the USA would ensure the balance of power remains in America’s favor in key regions of the world: The Indo-Pacific, Europe, and the Middle East. Trump emphasizes the reborn of «Great America» and «the America First» approach. James M. Dorsey, «China and the Middle East».</td>
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China and the USA face incompatible interests in the Middle East, Asia and North Africa as consequences of Trump’s toughened attitude towards this region to contain China.

Ivo H. Daalder and James M. Lindsay, «The empty throne». American global leadership is under threat because of the effect of globalization that leads to the rise of China.

John G. Glenn, «China’s Challenge to U.S. Supremacy». The USA as Great Power faces a typical problem of maintaining its leadership.

Source: made by the author

As Table 1 shows, theoretical grounds to explain the roots of trade disputes vary. Most of the considered economic theories were destined to explain trade conflicts of the 20th century, which were different in many aspects from the U.S.-China trade dispute. Today’s trade war reflects global imbalances resulted from hyperglobalization. Nevertheless, the analysis is useful to understand a common logic of trade disputes.

Among economic theories, the optimum tariffs theory tries to give a rational explanation of trade war, but it is conditional on many assumptions (domestic and foreign demand elasticity, income distribution) while objective function neither the U.S. nor China are known. Benefits from free gained by for developing countries is about 1.4% of GDP while larger economies’ gains are smaller: 0.57% of GDP for the USA, 0.61% for the EU.18 This fact creates a tempting situation for advanced economies to deviate from free trade. Trade taxes improve the levying country’s welfare by turning the commodity terms of trade (relative price at which exports exchange for imports or the quantity of imports bought by a unit of exports) in its favor, thus giving it a better bargain in world markets.19 Imposing tariffs at the optimal level, the country with market power reduces excess demand for imported goods and lowers price in the world market under the condition of the absence of

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19N. Kaldor, “A Note on Tariffs and the Terms of Trade,” Economica, n.s. 7 (November 1940): 377
retaliation measures from its trade partners. In this way country with large market gains from tariffs at the expanses of other countries, however there is a risk of retaliation that may lead to a trade war. The terms of trade argument against free trade are rational but no practical. In practice, economists more often emphasize it as a theoretical proposition than actually used by governments as a justification for trade policy.20

Game theory applies the logic of the prisoner’s dilemma to explain the trade war. The U.S. and China from these perspectives either in a situation of mistrust or they are acting as irrational players. The best possible outcome for countries is mutual free trade policies. The U.S. was the first mover payer who had issued tariffs and China responded symmetrically. The problem of trade warfare provides the following definition of a trade war - a situation when countries acting unilaterally to protect the domestic market, but leaving worse off as the best possible outcome is not achieved. The solution is to coordinate trade policies via international agreements.

Countries are able to impose protectionists’ measures not only because of lack of cooperation, but to do it intentionally facing the inability or reluctance of trade partners to retaliate equally. The conditions under which country benefits are differentiated on the dependence on the elasticity of countries’ demand for products subjected to tariffs. In particular, the country benefits from breaking free trade agreements despite retaliation from a foreign country when the elasticity of domestic demand for imported products is visibly higher than the elasticity of foreign country demand for its own product.21 However, in the case of the U.S.-China trade war bunches of tariffs comprised mainly with consumer goods (or inputs for it) which are quite responsive to the increased price of imported goods as a result of higher tariffs.

Not all economists accept the argument of terms of trade improvement for explaining trade war nature. According to D. Regan’s interpretation of the Smoot-Hawley tariffs by the USA, the story behind them is one of pure and simple protectionism. He argues that protectionist motivation is not correlated with terms of trade manipulation, but explained by the changes in national interest, meaning that in a certain period of time protectionism makes the country better off than liberalization. Changes of the U.S. trade policy may be explained by framing effects – people perceive their interests differently in different decisional contexts. The USA as a Great Power influences legal-political-institutional order according to changes in its competitive position. A country may abuse its dominating position to extract concessions from trade partners. The world trade community criticized the U.S. Section 301 Enforcement Act arguing that it brakes international rule of law, namely trade-related Agreements. However, the Act is still successfully applied by the USTR and the U.S. continues its unilateral retaliation abusing its world leadership. China also abuses its position in the multilateral system distorting free trade. Until recent times countries including the U.S. tolerated asking China to comply strictly with the WTO obligations.

Trump’s decisions are consistent with the logic of neo-mercantilism suggesting that protectionism is a new normal. The issue of trade deficit however is ambiguous and non-informative in order to assess the competitiveness of American versus Chinese economy. In turn, building on assumptions of Comparative Advantage, Zeng Ka states that the complementary structure of the bilateral trade decreases economic incentives of state to start a trade war. The conflict escalates as China takes a course on exports of high assembled and high-techs goods rather than low value-added labor-intensive goods.

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Scientists from the World Trade Institute conclude that economic theories capture main points of trade policies of countries involved in a trade war, but the logic of the U.S.-China trade may be a «not rational in the way required by the theory of rational trade wars». They argue that the U.S.-China trade war fits the realm of «stupid trade disputes» and better-explained form geopolitical positions.23 One broad approach in IR is referred to as realism, where the main concern of states is national security in conjunction with leaderships in the world arena.24 Applying the approach to the U.S. –China trade war witnesses that the roots of trade war lay in changes in the balance of power and necessity to contain China’s rise. Realism rejects a win-win outcome and belief in the possibility of mutually reciprocal cooperation. In contrast, conflict is normal and states are in permanent competition, a trade war in this context is one of the forms or extensions of such conflict since economic power is attached to political power.

The political economy approach suggests that country sets tariffs unilaterally to equalize the demand of import-competing industries for protection with the supply on the behalf of the government. The political optimum tariff will depend on the size of the import-competing sector.25 Producer associations are better organized than affected by higher prices consumers. If the size of the import-competing sector is large, the equilibrium tariff will be higher as well as probability of retaliation from foreign countries. Nevertheless, implying this argument to the trade war one will result in the fact that the USA set higher tariffs on China’s goods driven by government self-investigation rather on import-competing sector demand. The demand for rolling back of tariffs from domestic constituencies negatively affected

with Trump’s decisions will continue, but given an increasing uncertainty there are no guarantees of positive solution for business.

The methodological individualism suggests that actors shape the system. Personal characteristics and mindset of political leaders lead to changes in the foreign policy of the state. Building on this level of analysis Trump is anti-globalists who oppose the current rule-based system. He is coherent on its approach to foreign policy: before his presidency, he has claimed that America is ripped off by third countries, especially by China. H. Daalder and M. Lindsay argue that lack of diplomatic skills, weak understanding of economic and foreign policy and arrogance of Trump contributed to changes of USA foreign policy towards tough and uncooperative attitude. Oppositely, D. Blackwill, A. Kissinger state that individual foreign policies of Trump are substantially better than his opponents assert, highlighting an improvement of unemployment. Pauken li Thomas Weir concludes that the U.S. Presidents (J. Carter. D. Reagan, G. Bush, B. Clinton, B. Obama) had claimed to get tough on China’s economic practices, but mostly failed to deliver on their threats. Trump’s threats were considered therefore non-credible by the Chinese side, forcing him to tough the attitude. Trump as a decision-maker contributed to the beginning of the trade war, but real causes inside of the system are deeper.

To conclude, among applied theoretical perspectives, the common logic of trade disputes is explained by international economics and theories of international relations. In the framework of those two dimensions, the trade war between the U.S. and China is competition for economic and geopolitical leadership. The general economic reason for deviation from free trade despite the threat of retaliation is the greater payoff of a trade war in conjunction with the confidence of the country in the ability to win. However, the further analysis presented in the paper finds out the trade war is costly for parties involved. From the point of view of IR, the trade war fits the

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realism approach meaning that the U.S. and China seek to maximize its economic and geopolitical power.

1.2 Methods of a trade war. Stages of a trade war escalation

Countries engaged in a trade war may retaliate by different instruments whether with tariffs or quotas. With time, methods of fighting in trade war are becoming more subtle and could be disguised under loopholes in the WTO law. The U.S. and China issued four lists of tariffs covering more than half of one another imports and applied a number of non-tariffs barriers.

Before entry into force of the WTO Agreements the protectionism of advanced countries was disguised under voluntary restrictions to constrain exports from third countries. The way to resolve trade imbalances when one country experiences surge increase in import is to force partners to set voluntary export restrictions (VER), voluntary restraint arrangements (VRAs) and orderly marketing arrangements (OMAs). Unlike legitimate safeguards measures, these alternative measures that are only quasi voluntary do not involve compensation and applied selectively against major exporting countries.27 Governments prefer to use these «grey area» measures for a wide range of products for instance automobiles, steel, semiconductors. The U.S. invoked this kind of measure against Japan’s growing export potential in the automotive industry. Nowadays Article XXI of Agreement on Safeguards prohibits the usage of those alternative measures.28

In general, tariffs are more preferable trade instruments than quotas not because it generates government revenue, but the most significant that it does not explicitly eliminate trade as quotas which take the form of the import ban, import or export

27WTO. Agreement on Safeguards. URL: https://www.wto.org/english/docs_e/legal_e/25-safeg_e.htm#11
quotas, licensing or other quantitative restrictions. The effect of tariffs and import quotas is not equivalent to foreign retaliation. In the case of passive participation of third countries trade war with optimal retaliation by quotas leads to elimination (in practice it tends close to zero but never reaches) of trade flows between two countries.\textsuperscript{29} The welfare effects of tariff retaliation differ from those of by quotas and need not eliminate bilateral trade flows as well as improve the welfare of the initiator (optimal tariff argument). Results of the two-based model are different from the model with the presence of the third country that trades freely: no trade elimination, quotas maybe even welfare superior to tariffs and small country may win a trade war.\textsuperscript{30} The latter model is more relevant since countries are involved in the multilateral trade system meaning that there is always a third country that changes the pattern of a trade war. For example, in July 2018 China banned purchasing soybeans from the U.S. leaving American farmers with high losses, but resumed imports from the U.S. in December in the course of a temporary truce in the trade war.\textsuperscript{31} Remaining tariffs on soybeans imports from the U.S. reoriented further China to the market of Latin America.

Article XI of GATT prohibits «restrictions other than duties, taxes or other charges»\textsuperscript{32}. However, paragraph 2 of Article XI GATT consists of exceptions under which quantitative restrictions are allowed. Article XX of GATT allows under specific conditions deviation from all GATT obligations. In other words, Article XX’s may justify inconsistency with any of the GATT obligations, be it Article I:1 (MFN treatment), Article II:1 (tariff concessions), Articles III:2 and III:4 (national treatment), Article XI:1 (quantitative restrictions) or any other obligation under the GATT 1994. For justification of deviation measures implemented by WTO Members

\textsuperscript{31}Reuters News Agency. URL:https://www.reuters.com/article/usa-trade-china-exports/china-buys-us-soybeans-after-declaring-ban-on-american-farm-goods-idUSL2N25I0N4
should be under the scope of one of Article XX exceptional circumstances.\textsuperscript{33} The second condition for justification of breaking whether tariff concession or prohibition of quantitative restrictions is consistence with the chapeau of Article XX that requires undertaken measures be applied in a manner which would not constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade. Additionally Article XXI of the GATT 1994 also provides for exceptions relating to national and international security.

Until recently, Article XXI has not played a significant role in the practice of trade dispute but nowadays it is special importance as the WTO Members invoke it to justify its protectionist measures, including the ongoing challenges regarding the steel and aluminum tariffs that the Trump Administration imposed under Section 232 of the Trade Expansion Act of 1962.\textsuperscript{34} Seven WTO Members including China and Russia have requested the panel to challenge additional customs duty of 10\% on imports of aluminum products and an additional customs duty of 25\% on imports of certain steel products.\textsuperscript{35} Members argued that taken by Trump Administration measures are disguised restriction of international trade in order to safeguard domestic producers under the excuse of national security. China expressed its concerns over «imposed unwarranted tariffs on steel and aluminum products and threats to raise tariffs on auto and auto parts to protect its domestic industries, using national security». From China’s point of view, it is necessary to take action on tightening disciplines to curb the abuse of national security exception, meaning U.S. measures against its products.\textsuperscript{36}

\textsuperscript{32}WTO. GATT 1947. URL: https://www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm#articleXI
\textsuperscript{33}WTO. GATT 1947. https://www.wto.org/english/docs_e/legal_e/gatt47_02_e.htm#articleXX
\textsuperscript{34}FAS. Section 232 Investigations: Overview and Issues for Congress. URL: https://fas.org/sgp/crs/misc/R45249.pdf
\textsuperscript{35}WTO. URL: https://www.wto.org/english/news_e/news18_e/dsb_19nov18_e.htm
\textsuperscript{36}China’s proposal on WTO reform. Communication from China. URL: https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?CatalogueIdList=254127&CurrentCatalogueIdIndex=0
Custom duties take the form of either ad valorem tariffs or non-ad valorem tariffs which are divided into the specific, compound or mixed. It is empirically shown that the welfare effects of ad-valorem and specific tariffs are not equivalent. For countries engaging in a trade war, the imposition of the optimal tariff of an ad-valorem type will result in less severe trade restrictions in comparing with a specific tariff. In the presence of a trade war, the tariffs are set by the governments, and neither of them is a price taker. Thus, when a country switches from a specific tariff to an ad valorem tariff, the other country will affect the external terms of trade in such a way to lower the effective trade restriction that its exports are subjected to. In the present framework, lowering its own per unit tariff implies a less severe effective trade restriction. This means that in a trade war in which the countries are committed to using ad valorem instead of specific tariffs, at least one of the countries is better off. The result differs in the case when there is a foreign monopolistic exporter. In such case a country gains with an optimal tariff as its trading partner chooses an ad valorem tariff instead of a specific tariff, while in the presence of monopoly, an importing country chooses an ad valorem instead of a specific tariff in order to capture a higher share of the monopoly rent and to induce the monopolist to export more.

There are three types of legitimate (in case of meeting all necessary requirement for its application including investigation and casual link evidence) trade remedies: anti-dumping duties and countervailing measures to target unfair competitive practices and mentioned above safeguards to restrict temporarily import against injury or serious threat of injury to the domestic industry. Each country is fully aware that contingent protection against imports from a particular country may

39WTO. Understanding the WTO: The Agreements. URL: https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm8_e.htm
invoke retaliation and lead to a trade war with that country. The difference between tariffs and contingent protection is well known; while tariffs must be applied uniformly to imports from all WTO members under the WTO's most favored nation clause, contingent protection can be used to target specific countries, specific industries and even specific firms without violating the WTO's non-discrimination and reciprocity principles. As a result, contingent protection, unlike tariffs, is likely to generate little terms-of-trade effects.

The shortcoming of the Dispute Settlement System of the WTO is that retaliatory measures have an incalculable impact on the non-complaint party because these measures impose a heavy burden on «a motley assembly of exporters and importers, often smaller companies, who rarely, if ever, have an interest in the original dispute». The larger retaliation the less allocative efficiency caused in different sectors of the economy. Retaliation measures have an incalculable impact not only on the punished party but it is also difficult to estimate its impact on the third parties. So additionally to tariffs and quotas, contingent protection is also could result in a trade war. It is known as a selective targeting hypothesis when a country with a larger market is likely to retaliate in the form of contingent protection.

Less regulated instruments of a trade war are unjustified and intentional non-tariff barriers. It is difficult to measure the overall importance of these non-tariff barriers to trade because they can consist of so many different measures, including licensing, conformity assessment and so on. These kinds of measures are less transparent, difficult to follow, and usually applied to selective industry or goods. Non-tariff barriers maybe alternative instruments to retaliate for a country that has limited leverage of tariff retaliation over opposing trade partners. These types of instruments could generate even a separate line of trade war like patent war as for

example Apple versus HTC. The creation of patent barriers is inconsistent with IP protection and enforcement agreed upon under the World Trade Organization and trade-related aspects of intellectual property rights (TRIPS). Another example of creating non-tariff obstacles is the exclusion of Huawei and other Chinese telecommunication companies from tendering in key telecommunications contracts in a range of western nations due to alleged «national security» threats. According to Article X:3(a) WTO Members have an obligation to avoid non-uniform, partial, and unreasonable administration of legal instruments that constitute non-tariff barriers to trade.

There is a persistent focus on tariffs measures during the U.S-China trade war, while non-tariffs barriers could be even more harmful, but its effect is hard to estimate. The table below summarized the U.S.-China tools of fighting in the trade war.

Table 2 – The U.S.-China restrictive measures in the course of the trade war

<table>
<thead>
<tr>
<th>The U.S.</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade remedies</strong></td>
<td></td>
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<tr>
<td>Safeguards tariffs on solar panels, washing machines, steel and aluminum</td>
<td>Antidumping duties on sorghum</td>
</tr>
<tr>
<td><strong>Tariffs barriers</strong></td>
<td></td>
</tr>
<tr>
<td>List 1, List 2, List 3, List 4 – on 550 bln. of USD</td>
<td>List 1, List 2, List 3, List 4 – 185 bln. of USD</td>
</tr>
<tr>
<td><strong>Non-tariffs barriers</strong></td>
<td></td>
</tr>
<tr>
<td>Foreign investment restrictions in technologies</td>
<td>Ban of soybeans purchase</td>
</tr>
<tr>
<td>Ban of ZTE and Huawei, Sugon, the Wuxi Jiangnan Institute of Computing Technology, Higon, Chengdu Haiguang Integrated Circuit, and Chengdu Haiguang Microelectronics Technology from operating in the U.S.</td>
<td>Non-reliable foreign entities list</td>
</tr>
<tr>
<td>Export control list of Chinese entities with potential security risk</td>
<td></td>
</tr>
<tr>
<td>Non-country specific export control rule on emerging technologies</td>
<td></td>
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<tr>
<td>China is labeled as a currency manipulator.</td>
<td></td>
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</tbody>
</table>

Source: USTR, MOFCOM

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44WTO. GATT 1947. URL: https://www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm#articleX
Notably, the U.S.-China trade had already been quite distorted with harmful import restrictions, the trade war just contributed via tariffs measures. At the beginning of the considered 5-years period, half of the countries’ exports to each other were affected by restrictive measures.

Figure 1 – The share of China’s export affected with the U.S. import restrictions, %
Source: Global Trade Alert

Figure 1 shows the most spread harmful impact on China’s export to the U.S. had American subsidies during all considered periods. Until 2018 the number two restrictions were government procurement restrictions with more than 15% of China’s export distorted, but the trade war increased the spread of tariffs measures two times up to about 30%.
Figure 2– The share of U.S. exports affected with China’s import restrictions, %
Source: Global Trade Alert

Until 2018, the most spread restrictions faced by American exporters in China were subsidies and quantitative restrictions such as licensing and quotas. As a result of the trade war tariffs measure became the most spread restrictions covering almost 40% of the U.S. exports.

The trade war is a result of imbalances in the relationship between countries or intentions of countries to solve internal economic problems by the beggar-thy-neighbor policy. Trade war could be an extension of political tensions or trade conflict escalation. The first stage of a trade war is the accumulation of preconditions for implementing protectionist measures. Previous American Presidents had already threatened to tough attitude over China unfair trade practices that have existed for years, but it happened only under Trump. Until 2019 the U.S. reports on China’s WTO compliance began with recognition of positive changes in the Chinese economy, whereas the report issued in 2019 started with the claims on broken
promises. However, already in the first report, the Administration expressed «serious concern during China’s first year of WTO membership». 46

The second stage is the realization of those measures by an initiating a country against a targeting country or group of countries to selected sector or product. At this stage there is a trade dispute, it normally occurs between countries within the multilateral trade system and the WTO is considered to be a key institute to resolve it and provide a forum for negotiation. In the case of the U.S.-China trade war claims were previously concentrated over solar panels and washing machines, metals and technological sectors. In March of 2018 the U.S. lodged the case in the WTO over China’s Certain Measures Concerning the Protection of Intellectual Property Rights.47

If the conflict has not been solved and countries have not achieved mutual agreement, trade spat enters the next stage - «tariff trading», where the affected country retaliates. Trading tariffs are best defined as tit-for-tat or asymmetrical retaliation across industrial or tradeable service products between two or more trading partners. Tariff wars are often short and typically involve the party that instigated the trade conflict withdrawing tariffs after losing in the WTO courts, or suffering domestic economic losses associated with the trade-offs that typically involve job losses and higher prices for consumers.

The final stage is what actually constitutes a full-blown trade war. A move into a trade war happens when countries escape from the WTO framework and engage in punitive measures. This stage is characterized by an announcement of withdrawing from multilateral trade agreement or intention to do so, breaking tariff concession or market access commitments, the aggressive creation of non-tariff barriers, limiting capital flows and, in some cases, threatening of nationalizing and expropriating

foreign-owned firms and property. The prolonged cycle of tit-for-tat tariffs exhausts the foundation of the multilateral trading system raising uncertainty. The consequences of a trade war are a distortion of international trade, undermined trust in the effectiveness of international institutions and treaties, increasing trend of protectionism, market volatility.

A trade war that begins in one sector can grow to affect other sectors. Likewise, a trade war that begins between two countries can affect other countries not initially involved in the trade war. As a result of tit-for-tat actions four lists of additional tariffs on a wide range of sectors were imposed both by the U.S. and China. As noted above a trade war can result from a protectionist penchant. In the ultima ratio trade war could lead to the world recession, a threat of engaging countries in a global trade war.

Depending on the further parties’ strategies, trade war may enter the stage of de-escalations or continue leaving tariffs permanently. In January of 2020, the U.S. and China reached Agreement, which will be described in the second chapter, but tariffs were not rolling back. At least it indicates that parties move to more cooperative strategies.

While additional tariffs issued by the U.S. and China have drawn the attention, non-tariffs measures are long-time in force had been distorting trade before the trade war started. In 2018 China’s export share distorted with the U.S. intervention increased by 10% up to 75%, with subsidies as the most spread barrier. In 2018 tariff measures were responsible for 31% of the export share, two times more than in 2017. In 2018 share of the U.S. exports affected by China’s import restrictions went up by 5% up to 71,32% of total export to China. Until 2018 subsidies were the most distortive measures of intervention faced by American exporters, but in 2018 tariffs

URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds542_e.htm
measures that went up from 24% to 39% were the most spread import restrictions in China on the U.S exporters.

There are the following instruments of the trade war:
— Optimal tariffs: ad valorem or non-ad valorem
— Quotas: import ban, export or import quota, licensing and prohibited «grey area» measures
— Other non-tariff barriers to trade
— Trade remedies

Trade war escalation goes on certain stages. At the first stage, external or internal trade imbalances occur provoking the country to follow protectionist policy. In 2001 China had become a Member of the WTO and the U.S. experienced China’s Shock that resulted in a rise in unemployment; the U.S. trade deficit also went up rapidly. During 19 years, the U.S. is issuing reports on China’s compliance, expressing its long-standing concerns, but the rhetoric has become more aggressive in recent years. The second stage, trade spat, is the initiation of trade conflict by country following its target. In 2017 the U.S. started a self-investigation on Chinese trade practices. In 2018 the U.S. issued the first list of tariffs. The third stage, tariff trading or tariff war, begins when the affected country chooses to retaliate against dispute initiator. Immediately China responded with its list of tariffs on the number of U.S. products. Soon the U.S.-China entered the stage referred to a full-blown trade war when the frictions escalated and they engaged in long terms cycle of retaliation breaking trade arrangement further. In 2020 the U.S. and China trade war started to deescalate, but the uncertainty is still high.
1.3 Analysis of trade wars

Historical observations proved that now advanced countries to establish the domestic industry had gone through a period of protectionism. When they had completed its industrialization and got ready to compete at the world scale the transition to lower tariffs started. The use of protectionism by already advanced countries will cut their trade flows and damage world trade. The U.S. and China trade tensions reflect the rise of contemporary protectionism or neo-mercantilism. The negative spillover effect of trade war encourages other countries’ protectionism mood and retreat from openness.

The post-World War I order was fragile with political and economic uncertainty in conjunction with the instability of monetary policy. Against of absence of a coordinated international approach to economic recovery countries clearly expressed their preference in favor of protectionism due to the range of industries that were exhausted by war and needed safeguards. According to League of Nations calculations, applied tariffs on manufactured goods in 1925 were higher than before World War I in a majority of countries, especially in the USA (25% in 1913 and 37% in 1925) and Spain (41% in 1913 and the same in 1925). To compare average tariffs of the U.S. on China originated imports as a result of a trade war increased from 3,1% up to 21% as of January of 2020. China’s tariffs on U.S. products increased from 8% up to 20,9% during the period.

A sharp fall in agricultural prices occurred in 1928-29: France, Germany and Italy reacted quickly by raising their agricultural tariffs. In 1929 tariff reform discussions in the United States Congress focused first on higher agricultural protection, but soon encompassed industrial products. In the end, Congress passed the

49 League of Nations (1927) p.15.
Smoot–Hawley Tariff Act, which was signed by President Hoover and enacted in June 1930. During the debate, American economists and numerous countries protested against the tariff reform, but to no avail. Even before its implementation, this legislative act provoked widespread retaliation, contributing to a general increase in tariffs. The targeted increase of individual tariffs on goods of the United States interests to broke down any vestigial resistance to demands for protection.\textsuperscript{51} The Act applied to hundreds of products and bumped the average U.S. tariffs from 38% to 45%.

Smoot-Hawley Act failed to generate positive conjuncture on the world agricultural market as well as reduce unemployment in the USA. After experiencing the heavy cost of unilateral protectionism, the U.S. moved towards bilateral trade negotiations. On the trade policy front the Reciprocal Trade Agreements Act of 1934 was introduced. With the new trade act, Congress granted the President the authority to conclude reciprocal and mutually beneficial trade agreements in which prevailing duties could be lowered by up to 50%. Between 1934 and the end of 1939, 21 agreements with 19 countries were concluded, accounting for two-thirds of the United States trade in the 1931-35 period (exports plus imports).\textsuperscript{52}

After World War II the USA remained the strongest economy, therefore liberalization of trade was in its interests. The USA played a significant role in the origins of the GATT. In December 1945, the country invited its wartime allies to enter into negotiations to conclude a multilateral agreement for the reciprocal reduction of tariffs on trade in goods. In 1951 President Truman eventually decided that he would no longer seek Congressional approval of the ITO (International Trade Organization) Charter. Since no country was interested in establishing an international organization for the trade of which the United States, the world's leading economy and trading


\textsuperscript{52}World Trade Report 2007, p. 42-43.
nation, would not be a member, the ITO was «stillborn». \(^{53}\) Truman being president of the USA established the era of multilateral trade deals.

The period of open trade finished with the presidency of Mr. Trump and his tougher «America First» approach that led to redesigning of external trade relations. After the inauguration on 23 January 2017, Trump directed the Office of the U.S. Trade Representative to withdraw the United States from the Trans-Pacific Partnership, despite potential benefits of TPP that had aimed to set the global standards and rules for trade and unify America and its major partners in the region in the face of a rising China. Among others, the goals of Trumps were to renegotiate NAFTA and KORUS that he found out to be against American interests. The most prominent change was the breaking of the status quo in trade ties with China.

The USA as the establishing Member of the current trade system have managed to make important reservations that give to government leeway to use a hard approach. Since 1970, Western Europe and Japan strengthen their position and the developing world became more active. The last year of positive trade balance of the USA was 1975; slow erosion of free trade support had begun.

As a result, the USA was the first country under the GATT that created legislative procedures through which private firm could petition their government to challenge foreign trade barriers. This public-private mechanism is known as Section 301. Under the procedure, the USA at the complaint of private business or because of self-investigation can challenge foreign trade practices that either violate, or are inconsistent with, a trade agreement or are unjustifiable and burden or restrict U.S. commerce. On the one hand, Section 301 is an instrument to push countries to comply with their trade commitments, on the other hand the USA is able to exercise its political and economic power where there are no violations of international commitments, but what the U.S. may consider against its interests. Section 301 was

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criticized for its unilateralism and discretion character. WTO Members put some efforts to challenge the legality of American measures under Section 301, but the WTO Panel did not force the USA to withdraw this provision.\textsuperscript{54} Today Section 301 is a key tool to challenge Chinese commercial interests unilaterally by the U.S.

The USA trade policy is offensive during both GATT and WTO period because of its frustration with some of GATT/WTO characteristics. The U.S. became a large service exporter, but areas such as services and intellectual property were not under the scope of the GATT system. The GATT lacked enforcement to dissolve disputes. The U.S. exercises its aggressive unilateralism through VERs and Section 301. The WTO with its dispute settlement system arrived as a compromise between countries that suffered from unilateral trade measures of the USA and improvement in favor of American interests with the enforcement of GATS and TRIPS. The minimal set of standards of IPRs protection led to further dissatisfaction of the U.S. In March of 2018, the U.S. started an investigation based on Section 301 concerning China’s obligation under TRIPS. \textsuperscript{55}

In 1963 the U.S. was involved in so-called Chicken Friction. When France and Germany had imposed tariffs to protect the domestic industry from cheap American chicken produced in increasing amount due to the progress in factory farming method, the USA in turn introduced tariffs on European brandy, light trucks and some other items.

In 1983 a new trade conflict arose between the USA and Japan as a consequence of the surge increase in import of Japanese autos to the American market. The USA forced Japan to introduce VER that is prohibited since the entry

\textsuperscript{54}United States — Sections 301–310 of the Trade Act 1974. URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds152_e.htm

\textsuperscript{55}Findings of the investigation into China’s acts, policies, and practices related to technology transfer, intellectual property, and innovation under Section 301 of the trade act of 1974. URL: https://ustr.gov/sites/default/files/enforcement/301Investigations/301%20Draft%20Exec%20Summary%203.22.ustrfinal.pdf
into force of the WTO Agreement. During the same timeframe, the two countries also squabbled about other goods like electronics, motorcycles, and semiconductors.

The U.S. and Canada get used to maintaining long-term trade relationships, however, since 1982 with later recurrence countries are involved in so-called wood war regarding privately owned softwood lumbers of the U.S. and owned by provincial government Canadian timber.

In 1985 the USA initiated Pasta spat due to dissatisfaction with the level of access for its citrus products in Europe. Reagan Administration put tariffs on European pasta and Europe retaliated by a tariff on walnuts and lemons from the States. In 1992 twenty years bananas war started as result of a heavy import tariffs imposed by Europe on Latin American bananas. Many of these companies, owned by Americans, investing in Latin America were negatively affected and filled eight separate complaints to the WTO. Beginning in 1995, trading partners filed a lot of WTO disputes over U.S. use of trade defense instruments.

The idea to strengthen the American steel industry at the expense of trade partners is not new then. In 2002, the Bush Administration imposed import tariffs on steel between 8% and 30%, Canada and Mexico were excluded from the effect of these measures under NAFTA. EU retaliated by tariffs on orange from the U.S. The USA failed to increase employment in the steel industry, after a short period of stability, jobs continued to decline.

Despite efforts to create a legitimate member-driven framework for ruling international trade like the GATT/WTO and to ensure positive outcomes of trade liberalization for different groups of countries protectionism is back. The USA’s dissatisfaction with WTO is increasing. The U.S. rejected to play by the rules of the international liberal order of which became to a high extent possible due to its power.

In January of 2018, U.S. Trade Representative announced the imposition of tariffs of 30% to 50% on imported large residential washing machines and solar cells
and modules. The reason is that domestic producers are not able to compete with cheap foreign washers and solar cells and modules, mainly from Asia. On the other hand, the Solar Energy Industries Association (SEIA) – the national trade association for the U.S. industry - and its members raised concern regarding the decision of Trump Administration to impose 30% tariffs on imported solar cells and panels. Association predicts that tariff «will create a crisis in a part of our economy that has been thriving, which will ultimately cost tens of thousands of hard-working, blue-collar Americans their jobs».

In March of 2018, Trump announced his decisions on the actions the Administration would take in response to China’s unfair trade practices covered in the USTR Section 301 investigation of China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation. The response to China consists of tariffs, WTO disputes and investment restrictions in industries or technologies deemed important to the United States. Section 301 is a key enforcement tool that allows the United States to address a wide variety of unfair acts, policies, and practices of U.S. trading partners.

In March of 2018 the USA imposed a tariff of 25% on steel imports, China’s export represented about 16% of all steel exported globally in 2017. In April China retaliated by imposing tariffs on 3bln. of dollars of American goods and began collecting anti-dumping tariffs on sorghum imports from the U.S. worth 1 bln. dollars.

After the imposition of tariffs on aluminum and steel the head of the World Trade Organization (WTO), noting the potential for retaliation, warned that «a trade war is in no one’s interests». Trade war brings benefits in the short-term, but the costs of retaliation outweigh it in the long-term. After the first tranche of tariff imposition

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by the USA, the GDP growth in the second quarter of 2018 of both parties involved in trade war showed a negative dynamic. The rate of GDP growth in China decreased from 1,7% in the second quarter to 1,5% in the fourth, in the USA from 1,02% to 0,64% correspondingly.60

On June 15, the USA announced that tariffs on imports of 50 bln. dollars of goods would be rolled out between July and August and China responded symmetrically. However, in July the USA introduced 25% tariffs on 34 bln. dollars of goods and additionally on 16 bln. dollars of goods. China retaliated in the same volume. Failing to find a solution in the course of its back-and-forth negotiations countries engaged in a full-blown trade war and issued four lists of trade war tariffs. It is under question whether there will be rolling back of tariffs between the USA and China to the prewar rate.

Table 3 – The U.S.-China trade war tariffs

<table>
<thead>
<tr>
<th>U.S.</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>List 1 (July, 2018)</strong></td>
<td>25% on 34 bln. dllr.</td>
</tr>
<tr>
<td><strong>List 2 (August, 2018)</strong></td>
<td>25% on 16 bln. dllr.</td>
</tr>
<tr>
<td><strong>List 3 (September 2018, May 2019)</strong></td>
<td>10% with further increase up to 25% on 200 bln. dllr.</td>
</tr>
<tr>
<td><strong>List 4 (September, 2019, February 2020, December 2019 – suspended)</strong></td>
<td>From 15% with further cut down to 7,5% on 300 bln. dllr.</td>
</tr>
</tbody>
</table>

Source: USTR, MOFCOM

Notably, China’s the last two tranches of retaliation are lower in value than of the U.S. The explanation is that tariffs are hurting consumer and import-using producers. Simultaneously with increasing tariffs on the U.S. goods China, however, lowered its MFN rate to soften the effect of its retaliatory tariffs on the U.S. The average rate for non-U.S. suppliers decreased from 8% to 6,7% as of the end of

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59 United States Census Bureau. URL: https://www.census.gov/foreign-trade/balance/c5700.html
60 OECD Data. https://data.oecd.org/gdp/quarterly-gdp.htm#indicator-chart
While posing overall harm China’s strategy of targeting U.S. products, however, is more precise.

It is important to note that tariff rates were cut significantly because of Uruguay Round and as a result of adopted during Doha Round of negotiation Swiss formula. The trend of tariff rates reduction continues. Therefore, a slight increase in tariff rate also matters in tariff wars. Moreover, the final impact of an increase in tariff rate depends on the elasticity of demand for subjected to higher tariff products. The trade protectionist measures taken by the U.S. and China go against the WTO rules, damage the multilateral trading system, seriously disrupt global industrial chains and supply chains, undermine market confidence, and pose a serious challenge to global economic recovery and a major threat to the trend of economic globalization. Global Economic Prospects released by the World Bank in January 2019 revised its forecast for global economic growth down further to 2.9 %, citing continuous trade friction as a major downward risk. 61

The possible solution to the trade conflicts between the USA and China is to improve bilateral trade balance by higher USA export to China of such non-manufactures commodities as corn, rice, pork, beef and energy resources. Another option is to cancel export restriction in high-tech, but it will not happen because of the threat of technology leakage. The stage of tariff escalation is the most probably passed and Trump did not yield significant benefits for the U.S. economy. The tariff measures have significantly increased production costs for US companies and lead to domestic price hikes in the U.S. The growth of workplaces in steel and aluminum industries was obscured by higher production costs in steel reliance industries, the deficit went up and the USA discredited itself as a reliable partner. A joint report by the US Chamber of Commerce and the Rhodium Group in March 2019, showed that,

under the impact of the China-US economic and trade friction, the U.S. GDP in 2019 and the next four years could decrease by 64-91 billion of dollars per year, about 0.3-0.5% of the total U.S. GDP. 62

The USA-China trade tensions establish uncertainty in the world economy that slowdowns business activity. Cooperation is the only correct choice for China and the U.S. and win-win is the only path to a better future. The WTO has played a very limited role in the course of a trade war due to several reasons such as the member-driven character of the organization, the U.S. unilateral procedures for retaliation, shallow competition policy regulation and Appellate Body crisis. Progress on specific trade issues will require China to comply with its WTO commitments and to make certain reforms that will likely touch on areas of state control over the economy. Also, new trade rules are needed to address China’s economic practices within WTO plus obligations, including the activity of state-owned enterprises (SOEs), subsidies and IPRs. On the USA side it is necessary to reject beggar-thy-neighbor policy and to move forward of bilateral, multilateral negotiations rather than the unilateral setting of tariffs.

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**Conclusion**

The present paper adopts the definition of the trade war as sustained, protracted, and high-intensity international conflict «where states interact, bargain, and retaliate primarily over economic objectives directly related to the traded goods or service sectors of their economies, and where the means used are restrictions on the free flow of goods and services». There are the following characteristics of the trade war that distinguishes it from trade spat:

— High level of conflict intensity: involvement of the top officials of the government, decisions are made on the executive level, back-and-forth negotiations;

— Politically driven conflict;

— At least one round of retaliation from targeting party, tit-for-tat strategy;

— Escape of the WTO framework and engagement in punitive tariffs and non-tariffs measures;

— Multisectoral impact (agrifood, industrial goods, miscellaneous manufactures, minerals, IPRs…).

To understand the nature of trade war different theoretical perspectives were applied. Several arguments explain the nature of trade war: terms of trade manipulation, the unilateral setting of tariffs for political reasons, maintaining the balance of power and global competition, inter-civilization conflict and framing effects of changes in national interests. International economics and international relations theories give the most comprehensive explanation. The USA-China trade war is a case of politically driven conflict, where import tariffs are tools to disturb economic power and to disengage opponents from the multilateral system to prevent
its spreading political influence. The economic objectives of trade war tie-up with political motives.

With time, methods of fighting in the trade war are becoming more subtle and disguised under loopholes in the WTO law, including national security exception. There are the following instruments of trade war:

— Optimal tariffs: ad valorem or non-ad valorem (four lists of tariffs from 5% to 25% issued both by the U.S. and China)

— Quotas: import ban, export or import quota, licensing and prohibited «grey area» measures (China’s temporary ban of soybeans imports from the U.S.)

— Contingent protection instruments (China’s anti-dumping duties on sorghum, the U.S. safeguards on the solar panel, washing machines, steel and aluminum)

— Other non-tariff barriers to trade (blacklisting of high-tech companies, the U.S. export control lists and restrictions on FDI)

Trade war escalation goes on certain stages. At the first stage external or internal trade imbalances occur, provoking the country to follow protectionist policy. The second stage, trade spat, is the initiation of trade conflict by country following its target. The third stage, tariff trading or tariff war, begins when the affected country chooses to retaliate against dispute initiator. Countries enter the stage referred to as trade war when the frictions have escalated and at least one round of retaliation has been imposed. Depending on the future scenarios, countries either step into the stage of conflict de-escalation or leave tariffs permanent.

The most prominent trade wars of the history are both initiated by the USA: The Smoot-Hawley Act in 1930 and the USA-China trade war in 2018. The unilateral trade policy of the U.S. in 1930 is a result of fragile post World War I order and weaken domestic industries. However, the current trade war with China is more
complex than just pure protectionism; the roots of the conflict lie in the geopolitical field.

As a result of two years USA-China trade war, there are American tariffs on 550 bln. dollars of Chinese goods and tariffs imposed by China on 185 bln. dollars’ worth of the U.S. products. However, already in the prewar period trade-distorting measures significantly affected the U.S-China exports to each other. While parties achieved economic and trade agreement on certain issues, tariffs are, still in the force and many sensitive issues are unresolved. The WTO played a very limited role in conflict resolution experiencing the crisis of the Appellate Body because of the U.S. uncooperative attitude.
II The trade war between the U.S. and China

2.1 Why did the United States begin the trade war against China?

The trade war has not happened unexpectedly, but because of cumulative claims and concerns of the U.S. on Chinese trade practices. While key trade players also express their dissatisfaction with China’s compliance with rules of fair game, the proxy of a trade war became the Presidency of the Trump. The official White House statement issued in May of 2020 announces the U.S. objectives in relation to China: to avoid China’s reshaping of the current order in its favor and to challenge its practices that violate the U.S. interests.63 This approach precludes from stopping friction between the U.S. and China in the near future. The analyses of reasons found out that the U.S trade war against China is going in several dimensions: geopolitical, economic, and technological.

The vector of the USA foreign policy became clear after Trump issued on December 18 of 2017 National Security Strategy that proclaimed to advance American influence in the world and to protect American interests against China.64 The previous state leaders had expressed their dissatisfaction with respect to China’s compliance with trade practices but Trump went further. At the beginning of next year, USTR issued the first of a total of four lists of tariffs on Chinese products only.65 The U.S.-China trade war is an intensive conflict in which the U.S. applies rounds of tariffs and non-tariffs barriers in bilateral trade with China to constrain its growth and China responses with retaliations. The trade war is part of a multidimensional competition between the U.S. and China for global leadership.

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64 White House. URL: https://www.whitehouse.gov/briefings-statements/president-donald-j-trump-announces-national-security-strategy-advance-americas-interests/
65 China Section 301-Tariff Actions and Exclusion Process. URL: https://ustr.gov/issue-areas/enforcement/section-301-investigations/tariff-actions
The trade war in a high extent presents the political will of current U.S. Administration triggered by increasing economic and technological potential of its main trade partner rather than a sign of real economic emergency or troubled business environment in the U.S. The process of challenging Chinese unfair practices was a self-investigation procedure of USA and not bidding of the American business. There are several sorts of reasons described below from geopolitical to technological competition, why the USA began the trade war.

- Geopolitical confrontation and competition for global leaderships between the USA and China

Given its economic power, China is a key player alongside the U.S. and the EU who determines the agenda in the international arena. Today from the point of view of the Federal Bureau of Investigation, the USA faces the multilayered threat posed by China. Among all other claims formulated in Section 301 Investigation, there are China’s cyber intrusions into the U.S. computer network.

The ambitious Chin’s initiative «One belt – one road» concerns the U.S. Administration. Chinese transcontinental project with a budget of about 1 trln. dollars obscured Marshall Plan offered by the USA after World War II. Belt and Road Initiative is not only a friendly gesture of Chinese efforts to cooperate with the world but the factor that increases its bargaining power and expands its influence over the globe. This issue could not be ignored by the U.S. with its long lists of potential threats to national security. The U.S. considers the project as a part of Beijing’s efforts to reshape the multilateral system to its favor. The Center for Global Development found eight Belt and Road countries at risk of not being able to repay

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67 Findings of the investigation into China’s acts, policies, and practices related to technology transfer, intellectual property, and innovation under Section 301 of the Trade Act of 1974. URL: https://ustr.gov/sites/default/files/enforcement/301Investigations/301%20Draft%20Exec%20Summary%203.22.ustrfinal.pdf
68 MOFCOM. Belt and Road. URL:
loans on the financing of infrastructure projects from Chinese policy banks to SOEs in their countries. Critics worry China could use «debt-trap diplomacy» as a leverage in its claims over territorial disputes in the South China Sea or silence on human rights violations. Some worries that Chinese commercial presence around the world will eventually lead to an expanded military presence. China’s «maritime silk road» also pushes its strategic advantage at sea. One consequence of this is that China has become a regional power and more likely to become a global player, in competitive cooperation with the United States, the dominant external actor in the greater Middle East. However, neither of those reporters do specify China’s incentives for debt-trap diplomacy and for military expansions. Oppositely, China advocates peaceful development and a new model of relations between the Great Powers based on trust and cooperation.

Yet another channel is that China will create an offshore pool of workers from BRI countries and gain control over a large part of global supply chains and manufacture, according to the Chinese state needs. The strategy of offshoring production requirements to developing economies overseas puts China on a direct collision course with the US.

The United States and China are adjusting to one another in a world in which China is on the rise and the United States is in an accelerated process of transition and shifts in balances of power. It becomes more difficult for Trump to contain China from expanding its power over the traditional regions of the USA influence. The trade war is part of those efforts.

• Economic reasons: trade imbalances including bilateral deficit in trade with China

Overall, leaving aside the impact of the trade war between two major world economies the volume of mutual trade between the USA and China had steadily raised. As Table 4 shows since the accession of China to the WTO trade, the intensity index of trade between China and the USA has been increasing. China-US trade relation has evolved into one of the world’s fastest-growing and the largest bilateral trade relationship.

**Table 4– Trade intensity index of the U.S. and China**

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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Index</td>
<td>1.07</td>
<td>1.11</td>
<td>1.15</td>
<td>1.21</td>
<td>1.25</td>
<td>1.3</td>
<td>1.3</td>
<td>1.29</td>
<td>1.36</td>
<td>1.3</td>
<td>1.25</td>
<td>1.25</td>
<td>1.26</td>
<td>1.32</td>
<td>1.3</td>
<td>1.35</td>
<td>1.31</td>
<td></td>
</tr>
</tbody>
</table>

Source: WITS

Behind the announced reasons for the trade war is a concern of the raising power of the Chinese economy. Since accession to WTO China more than doubled its share in the world GDP based on PPP from 7.84% to 18.72% overtaking the USA with its share 15.17% as of 2018.73 After China’s accession to the WTO the USA experienced so-called China Shock that had accounted for as much as 40% of the decline in U.S. manufacturing jobs between 2000 and 2007 - or about one million jobs in total.74 Also part of the unemployment burden laid on technological progress.

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72 China and the Middle East by James M. Dorsey
73 IMF Data.
URL: https://www.imf.org/external/datamapper/PPPSH@WEO/OEMDC/ADVEC/WEOWORLD/THA/CHN
Figure 3 – Trade balance of the U.S. with China, 1000 USD

Source: U.S. Census Bureau

The trade deficit as an indicator that Trump sees a critical and uses as an excuse in conjunction with national security concerns is steadily increasing from the beginning of the early 2000s. Instead of the expected reduction of trade deficit with China after tariffs imposition, it has increased in 2018. As Figure 3 shows total all merchandise deficit in trade with China 4 times larger in 2018 than in 2002 (-103,06 bln. USD and -419,16 bln. USD correspondingly). In 2019 deficit was reduced by 17% in trade with China and by just 2% in trade with the world, meaning that the U.S. imported more from the rest of the world and distributed its global deficit rather than eliminated it.

The development of the global value chain requires taking into account trade in value-added. As the pressure for rebalancing increases in the context of persistent deficits, there is a risk of protectionist responses that target countries at the end of global value chains on the basis of an inaccurate perception of the origin of trade imbalances.\textsuperscript{75} China’s backward participation however decreased from 26,3% in 2005 to 17,3% in 2015, it indicated that China’s gross exports contained less foreign value-

\textsuperscript{75}Trade in value-added: concepts, methodologies and challenges (joint OECD-WTO note) https://www.wto.org/english/res_e/statis_e/miwi_e/oecd_wto_mar2012_e.doc
added than before. At the same time China has been increasing its forward participation from 15.6% in 2005 to 17.5% in 2015.\footnote{Trade in Value Added and Global Value Chains. URL: https://www.wto.org/english/res_e/statis_e/miwi_e/CI\_e.pdf} It indicates that China shifts from being the place for low value-added operation and third countries at the end of supply chains rely more on intermediates goods from China. In 2015, 17.5% of China’s exports to the U.S. contained value created outside of China.\footnote{World Trade Profiles 2019 https://www.wto.org/english/res_e/booksp_e/tariff_profiles19_e.pdf}

The problem of deficit the U.S. had faced with Japan in the 1980s. But the past U.S. administration understood that deficit in bilateral trade with Japan as a result of internal imbalances has little to do with its trade partners. Moreover, it was clear that the U.S. needs «more trade, not less trade», therefore protectionism was an inappropriate strategy (however the U.S. forced Japan to undertake VER on automotive). The Administration proposals were to move towards better global balance and redistribute investments. According to the Louvre Agreement, other countries shall make their domestic economies attractive for foreign investments as of the U.S. compensating it with a reduction of its trade surplus and reduction of the trade deficit in America. From Trump’s points of view, the trade deficit that country runs with most of its trade partners is an indicator of unequal market access.

The argument of unfair trade was however powerful. The U.S. tariff rates on average are lower than those of the most other countries, but Britain, France, and Germany, for example, all have the same average tariff rate as the United States, and Canada’s and Japan’s are slightly lower.

Table 5 - The U.S.-China faced imports tariffs

<table>
<thead>
<tr>
<th></th>
<th>Simple faced</th>
<th>average tariff</th>
<th>Weighted tariff faced</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural exports</td>
<td>16.3%</td>
<td>7.3%</td>
<td></td>
</tr>
<tr>
<td>Non-agricultural exports</td>
<td>8.6%</td>
<td>5.9%</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural exports</td>
<td>4.1%</td>
<td>3.2%</td>
<td></td>
</tr>
<tr>
<td>Non-agricultural exports</td>
<td>3.9%</td>
<td>2.6%</td>
<td></td>
</tr>
</tbody>
</table>

China had faced quite a liberal tariff in the USA market and the U.S. faced higher tariff barriers in the Chinese market. The U.S. blamed China for its overburdened administrative procedure and other non-tariff barriers. Average tariffs of the U.S. on China originated imports as of January 15, 2020 is 19.3%. The tariff rate of China on the imported from U.S. products is 1% higher – 20.3%. 50

Another reason for increased trade tensions is that U.S. strategic industries are becoming less competitive and even lost to the Chinese as shown below. Measures of the revealed comparative advantage (RCA) have been used to help assess a country’s export potential. The RCA provides useful information about potential trade prospects with partners. RCA measures, if estimated at high levels of product disaggregation, can focus attention on other nontraditional products that might be successfully exported. A value of less than unity implies that the country has a revealed comparative disadvantage in the product. Similarly, if the index exceeds unity, the country is said to have a revealed comparative advantage in the product.

Source: WITS
Notably, China becomes less competitive in its traditional articles of export such as textiles and clothing, footwear. Instead, it possesses a higher comparative advantage now in machinery and electronics, other manufactures, which are traditional sectors of the USA’s export. If at the earlier stage of China’s economic development its trade structure has been complementary in trade with the U.S., nowadays there is industry competition between countries as a result of China's rapid industrialization, investment, and acquirement of technologies. The USA and China are competitors in the market of machinery, electronics, equipment, high-tech products. The USA maintains a strong advantage in capital goods. China maintains a strong advantage in consumer goods with increasing advantages in capital goods as well.

- Technology dimension that is closely connected to commercial profits and political power that China is gaining due to its technological advances

At the heart of the USA-China trade war is competition for technology supremacy. Firstly, supreme in terms of high-tech advancement country will yield commercial benefits (first-mover advantage) and set standards globally. Secondly, technological leadership is essential for national security. The USA has shifted its focus toward containment of Chinese high-tech sector because China lifts its technology sector at the level that challenges the leading position of the USA. Such a rapid technological advancement of China was possible not only due to government support, but because of tricky investment policy.

U.S. Report on Chinese compliance states Chinese government uses foreign ownership restrictions, such as formal and informal joint venture requirements, to require or pressure technology transfer from the U.S. companies to the Chinese entities, substantial restrictions on, and intervenes in the U.S. companies’ investments
and activities, including through restrictions on technology licensing terms. While naturally, all countries are maintaining certain restrictions on FDI, China’s regulation is unique and criticized wildly.

Factors that fuel hostility of the United States are claimed cybercrime and espionage of China. «More than ever, the adversaries’ targets are our nation’s assets—our information and ideas, our innovation, our research and development, our technology. And no country poses a broader, more severe intelligence collection threat than China». The USA also sees a threat to national economic security in «Made in China 2025» as it increases competition in the telecommunications, robotics, artificial intelligence.

During the fourth Industrial Revolution era, leadership is determined by the ability of national economy adaptation to conditions of the digitalized environment. Therefore, currently competition for technology between the USA and China seems unavoidable. The following table presents a comparison of some essential indicators of technology competitiveness of the USA and China. It confirms that China is making successful efforts to develop its digital economy and to ensure steady technological advancement.

Table 6 – Comparison of the US and China technology competitiveness indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>USA</th>
<th>China</th>
<th>USA</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution of digital economy to GDP, 2017</td>
<td>6.9% of GDP (narrow definition) 21.6% of GDP (broad definition)</td>
<td>6% of GDP (narrow definition) 30% of GDP (broad definition)</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Geographical distribution of value-added in ICT manufacturing, 2017</td>
<td>19% of the world share</td>
<td>32% of the world share</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>E-commerce sales as share of GDP, 2017</td>
<td>46% of GDP</td>
<td>16% of GDP</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Technology governance, rank in 2018</td>
<td>1st</td>
<td>24th</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Most valuable tech companies, 2018</td>
<td>7 of 10 the most valuable tech companies</td>
<td>2 of 10 the most valuable tech companies</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

79Council on Foreign Relations. URL: https://www.cfr.org/event/conversation-christopher-wray-0
<table>
<thead>
<tr>
<th>Indicator</th>
<th>USA</th>
<th>China</th>
<th>USA</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of wireless users, 2018</strong></td>
<td>About 450 mln.</td>
<td>About 1.5 bln.</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>GDP per capita</strong></td>
<td>62605.6 of US dollars</td>
<td>9608.4 of US dollars</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Venture capital investment, 2018</strong></td>
<td>107 bln. of US dollars</td>
<td>105 bln. of US dollars</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Revenue of the biggest semiconductor companies, 2018</strong></td>
<td>Intel’s revenue – 70 bln. of US dollars</td>
<td>HiSilicon’s revenue – 7.6 bln. of US dollars</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Market share in global mobile infrastructure</strong></td>
<td>-</td>
<td>Huawei – 29%</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Share in the global distribution of AI experts, 2017</strong></td>
<td>13.9% of total international AI talent pool</td>
<td>8.9% of total international AI talent pool</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>ICT adaptation, rank in 2018</strong></td>
<td>27th</td>
<td>18th</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Global initiative</strong></td>
<td>Unwillingness to cooperate, isolationism</td>
<td>Digital Silk Road</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>8</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: made by the author

There is no universal approach to measure the value of the digital economy. By narrow definition, which includes ICT infrastructure, ICT-producing sector, digital and platform-based services, the US digital economy is accounted for 6.9% of GDP in 2017. Chinese digital economy has been estimated to account for 0.9% less than in the USA. But by the broad definition of the digital economy that refers to the use of various digital technologies for performing different economic activities China overpassed its competitor with a 30% contribution to GDP by the digitalized economy, 8.2% higher than in the U.S. Also China is ranked as the third-largest exporter of ICT services followed by the U.S in 2018. 80

Successful integration of China in GVCs (especially through backward participation) has allowed it to take the largest share in the distribution of global value-added by ICT subsector. 80

With the development of digital platforms, e-commerce becomes an inevitable part of the economy and source of value creation. The USA, where the share of e-

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sales represents almost half of GDP, remains a leader of the e-commerce market in 2017. China lags with a 16% share of e-commerce sales in GDP.

Successful transformation to the digital economy depends on government efforts in these spheres. Based on the Executive Opinion Survey, the USA is characterized by the most effective technology governance that refers to how fast is the legal framework adapting to digital business models (e.g., e-commerce, sharing economy, FinTech, etc). China is in 24th place on the list.\textsuperscript{81}

Among top-10 tech companies with the highest capitalization, there are seven of American origin (Microsoft, Amazon, Apple, Alphabet, Facebook, Cisco System, Intel) and two of Chinese (Alibaba, Tencent).\textsuperscript{82}

The size of the population in China allowed it to become the largest Internet market overtaking the USA by the number of Internet users and consequently providing opportunities for domestic businesses in the e-commerce, messaging and digital payments. But American tech companies operate in a richer environment: GDP per capita is 6.5 times more than in China.\textsuperscript{83}

Venture capital plays a significant role in driving technological advancement. Venture capitalists pour billions into artificial intelligence, autonomous driving, smart transport, biotech, and blockchain, among other areas. Silicon Valley has long been a magnet for entrepreneurs and investors across the globe, pulling billions of dollars into the US economy. Many entrepreneurial hubs across the globe have tried to emulate this success. At RMB 102bn, China-based China State-Owned Capital Venture Investment Fund became the largest venture capital fund to close in the past

\textsuperscript{83}Unctadstat. Gross domestic product: Total and per capita, annual. URL: https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx
10 years. In 2018, the aggregate value of venture capital deals in Greater China ($107bln) surpassed US deals ($105bln).  

Semiconductors' development urged the fourth industrial revolution. In the competition for integrated circuit design American high tech giant Intel outperforms Huawei chip’s unit HiSilicon and owns significant IP. Chinese Huawei, Swedish Ericson, and Finish Nokia dominate the market of mobile communication equipment; the USA lags far behind of leaders in this sector. Huawei is the absolute leading patent owner of 5G with 2160 of declared patent families as for July of 2019.

In the competition for talents, the USA has a leading position. In 2017 from the total pool of 204575 AI experts, more than 28000 people are attracted by USA economies, in China, the number is less by 10000. However, the gap may be closing. The World Economic Forum states in a report that in 2016, China had 4.7 million recent graduates from the science, technology, engineering, and mathematics (STEM) field, while the U.S. only had 568,000.

Technological advancements in China have been improved by a boost in ICT adaptation. In 2018 China has surpassed the USA by 9 places ahead in that pillar. The Digital Silk Road is the part of the Chinese global infrastructure BRI project that strives its China’s ascendance as a technological superpower. The USA stays aside from global initiatives showing an unwillingness to cooperate on a multilateral base. Under Trump’s presidency only partial the Japan-US Digital Trade Agreement was reached.

By the aforementioned indicators, the USA and China receive 8 and 7 points respectively. It indicated that China is catching up rapidly and even outperforming the U.S by certain indicators. Strong competition from China, especially in 5G, led to technology tensions between countries that are at the heart of the trade war.

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expected de-escalation of the trade war does not preclude further race for the technology between countries.

- **Legal reasons:** unfair Chinese trading practices, activities of state enterprises, IPRs breaches, currency manipulation

Table 7 – Non-tariffs measures indicators

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Initiated by the U.S.</th>
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</thead>
<tbody>
<tr>
<td>Numbers of disputed initiated against China</td>
<td>44</td>
<td>23</td>
</tr>
<tr>
<td>ADP measures in force faced by exporter (cumulated number)</td>
<td>631</td>
<td>120</td>
</tr>
<tr>
<td>CVD final measure faced by exporter (cumulated number)</td>
<td>90</td>
<td>52</td>
</tr>
</tbody>
</table>

Source: [https://timeseries.wto.org/](https://timeseries.wto.org/)

The USA claimed that China’s Membership in WTO has resulted in the tangible costs for the trading system and increasingly targeted China in the DSB. Table 7 indicated that the U.S. initiated 23 cases from a total of 44 disputes against China. However, the issues of STEs activities and the structure and scope of intellectual property rights are not fully covered within the WTO since competition policy is only complementary regulated under the umbrella of WTO Agreements.\(^86\)

To what extent the domestic economic system affects international obligations of the state is also an unresolved issue making the conflict between the Chinese state led market economy and multilateral trading system complicated. The U.S. also insists to withdraw China’s status of developing country because it does not fit reality. Already 7 years ago, China has outperformed the U.S. by GDP on PPP base. But there are no criteria in the WTO to grant economic status, Members self-designate it during accession. Besides, the U.S. shifts the burden for environmental degradation to China, forgetting that China is also serving as production facilities for MNC’s affiliates.


Whereas it is ineffective to bring the case in the WTO, the U.S. exercises its power and uses unilateral retaliation under Section 301 of Trade Policy Act 1974.

China is accused of its economic model with active government intervention and inadequate IP protection. According to the USTR report, China’s state activities distorted trade in steel and aluminum markets.87 At the same time, China continues to block valuable sectors of its economy like distribution, telecommunications, education, banking, and financial services from foreign competition. For example, for years the U.S. suppliers such as Visa and MasterCard are denied access to China’s market. U.S. Report on Chinese compliance states Chinese government uses foreign ownership restrictions, such as formal and informal joint venture requirements, to require or pressure technology transfer from the U.S. companies to the Chinese entities, substantial restrictions on, and intervenes in the U.S. companies’ investments and activities, including through restrictions on technology licensing terms.88

In fact, not the U.S. only is worried about China’s government intervention in the economy. EU has toughened its Regulation on the antidumping and countervailing investigation for countries whose prices and costs are distorted.89 Moreover, the European Commissions published the investigation on the evidence of distortions related to the involvement of the state in China’s steel, aluminum, ceramic and chemical industries.90 This report will be used as a part of formal anti-dumping investigations. At the same time, the EU and China are finalizing bilateral investment treaty, which EU hopes will open the market of China to European investors more. The EU approach to open up China’s market is considered more constructive, but assertive as well.

89 European Union. URL: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R2321
90 Commission staff working document on significant distortions in the economy of the People's Republic of China for the purposes of trade defense investigations.
Therefore, the U.S. has some legitimate claims on China’s compliance within a multilateral trading system, but the methods used to fight unfair practices are devastating for both parties. The structural reforms in Chinese economy delays while the benefits of open trade are exploited intensively. The U.S. was the first to respond harshly to unfair practices but in a destructive way. The pressure on China to pursue a faster transition to the market economy is going to increase. China has to give up extensive state support and develop its high tech industry under a free-market mechanism to allocate resources effectively and increase domestic competition. Unfair trade practices such as forced technology transfer, breaches of cybersecurity and other WTO inconsistent regulations have to be eliminated when it is proved. Moreover, since many of those issues remain the grey area of the WTO regulation, given its economic and political power the U.S. along with its allies should initiate work on these issues.

One can conclude that the roots of the conflict between the U.S. and China have already existed in several dimensions a long time before the trade war was initiated. The consequent question arises why it has started under the current administration.

- Personal factors such as Trump’s and his administration’s view that changes USA American policy towards its trade partners

The proximate cause of the current trade war is certainly U.S. President. Trump nullified agreements reached by his predecessors. He argued that the United States should simply use its «tremendous economic power over China to force Beijing to trade fairly». All the enemies and the allies realized changes in the global order initiated by Trump. In terms of the IR approach, Trump’s realism faces the so-called economism of China, the strategy where economic interests are dominated at the

expanse of politics. Trump upholds his realism’s prospects and does not seek for equal terms of cooperation, as the terms of such cooperation is dictated by the strongest with who Trump identifies itself with, promoting his idea of reborn of «Great America» and «America First» approach. «He had no interest in leading America’s friends and allies. He was looking to beat them. His was not a win-win world but a world of winners and losers».7

China's position is less explored in studying this issue of the trade war. China’s State Council Information Office on June 2 published a white paper titled «China’s Position on the Economic and Trade Consultations». The paper provides the position of China in favor of negotiation, high-level communications with the USA, active seeking of solutions to respective trade concerns, and at the same time highlights its readiness to respond by countermeasures in case of the uncooperative attitude of the States. The brazen attitude of Trump is contrary to Chinese values and the concept of «saving face». Being the sovereign state China will not give up its position and tolerate the interference in domestic economic development, but still, it is ready for compromise of mutual decisions. The U.S. lowered its line in negotiation and then it became possible to achieve Phase One Deal, which presents a neutral ambiguity rather than a manifestation of victory in the trade war by either party.

The trade policy of certain countries tends to compromise the divergent interests of domestic stakeholders. To understand the position of the USA in a trade war as of the conflict initiator, it is necessary to distinguish between several groups: Mr. Trump, Trump’s administration and advisers, domestic constituencies.

Trump’s approach «America first» has turned into actual policy in the areas of international trade and investment, challenging the postwar multilateral trade order and benefits of liberalization. 93 Eventually, White House's nationalist faction focus on

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93President Donald J. Trump’s Foreign Policy Puts America First. URL: https://www.whitehouse.gov/briefings-statements/president-donald-j-trumps-foreign-policy-puts-america-first/
protectionism promoted a harder response on the rise of China. In 2017 the Administration was split between nationalist and globalist in the face of National Economic Council Chairman G. Cohn, but Trump followed the former faction. Trump claims that the USA has signed non-beneficial trade deals and allows other countries to become better off at expenses of America deindustrialization.\textsuperscript{94} The announced reasons of the trade war are imbalances in the trade including deficit in bilateral trade and trade distortion caused by the Chinese government.

The Trump’s doctrine of trade has four weak points: overlooking the gains from trade ignoring specialization in production, focusing on the trade deficit, neglecting the changing nature of trade and the need for cooperation in international affairs. First, free trade is essential not by itself, but as a mechanism aimed to spread prosperity. According to the neoclassical trade model, the gains for countries are a result of its comparative advantages, meaning either labor-intensive or capital-intensive product specialization.\textsuperscript{95} China’s labor costs are relatively low, as consequences, many advanced countries shifted its labor-intensive production to China. Some traditional industries in the U.S. declined as labor costs had raised, but the U.S. maintains a strong advantage in capital-intensive production. Secondly, since 1975 trade deficit is the feature of the U.S. economy and it is compensated with capital inflows. Thirdly, the integration of countries in GVCs requires adjustments of traditional measurement of trade deficit. One-third of China’s surplus with the U.S. is due to exports value-added \textsuperscript{96}; foreign-funded enterprises are accounted for nearly half of the trade surplus (Wind Financial Information). Finally, both the U.S. and China have been benefiting from free trade; protectionism may lead to not only economic

\textsuperscript{94}Bloomberg. URL: https://www.bnnbloomberg.ca/video/trump-says-u-s-has-been-ripped-off-by-china-and-the-eu-1492503
\textsuperscript{95}E. Hecksher, 1919; B. Ohlin, 1933
\textsuperscript{96}Goldman Sachs, 2017
losses, but also increased geopolitical tensions. Some academics worry whether the U.S. and China will avoid Thucydides Trap.97

At the beginning of Trump’s presidency, several U.S. public authorities and agencies warned about the possible costs of his position. Several Departments have shown disagreement and precautions. The Department of Defense does not want to compromise security and long-term foreign policy goals (for example, USA needs China’s support to dismantle North Korea’s nuclear weapons program) over benefits of a relatively small part of domestic industries. U.S. Chamber of Commerce opposes the tariffs on Chinese goods and called protectionism as a wrong approach to deal with trade partners. 98 On the other hand, Trump is between trade advisers, including Lighthizer, Ross and Navarro who favor his harsh line in trade and foreign affairs. One camp, including Peter Navarro and Wilbur Ross, sees higher tariffs as leverage to receive more commitments from China and another camp considers the trade war as part of the decoupling of two major economies strategy.99

The bilateral structure of trade with China makes American tariffs irrational and self-damaging. Higher tariffs were supported by affected with China Shock Midwest of America where manufacturing capacity is concentrated, as well as by imports competing producers. Nevertheless, it is not common for public authorities to impose protection to support declining industries that confirms the point of the politically driven character of conflict. While American steel and aluminum producers were supportive, steel-using firms suffered. Nearly half of the U.S. imports are intermediate goods and a large part of tariffed Chinese products are either substituted with third countries goods that are more expensive or still consumed but at a higher price due to tariffs. American businesses including manufacturers, farmers, ranchers, and technology companies are feeling the negative impact of the ongoing trade war. The

97Graham T. Allison, 2015; Lam Peng Er, 2016
98U.S. Chamber of Commerce. URL: https://www.uschamber.com/tariffs
burden laid on the exporters, domestic producers using imported inputs and American consumers outweighs the welfare of those who protected with the tariffs.

Many U.S. multinationals find out it is harder to operate in China that used to be attractive destinations among supply chains. Literally, Trump shifted the burden on its corporations and consumers since American foreign affiliates in China were selling to the U.S. consumers who had to pay more. As sectors covered by trade war are expanded, the retaliation from third countries, including EU’ countermeasures against the U.S. tariffs on steel, makes American exporters less competitive. Also many of the U.S. States report that trade war can result in unemployment growth, for example in California 4.8 mln. jobs are supported by the global trade and 13 bln. of California exports to China targeted for retaliation.100

Trump’s position on the trade war influences the outcome of the November 2020 elections, because his protectionism affected unity among domestic constituencies: import-using industries, export seeking versus small share of declining import-competing industries. The American interest groups are quite powerful; Trump has no choice but to negotiate their interests. For example, American farmers who sell to China happen to be Trump's electoral base. In May of 2018 Trump’s team went to China with a four-page proposal to rebalance trade demanding China to open the agricultural sector to American exporters. The assertive proposal did not satisfy Beijing. The next negotiations also had not brought significant results until the Economic and Trade Agreement was signed at the beginning of 2020.110 If Trump is not re-elected, it is highly likely that tariffs will be rolled back and the trade war will be eliminated.

There are different sorts of reasons that provoke the U.S. to start the trade war against China from legal to personal levels. The attitude of Trump does not yield

100Beyond the Trade War. A Competitive Approach to Countering China. Ely Ratner, Elizabeth Rosenberg, and Paul Scharre December 12, 2019
109The U.S. Chamber of Commerce. Trade works for California. Tariffs don't.
many benefits, but he has legitimate claims on China’s trade practices. The most important factor fueling hostility is the growing economic and technological potential of China while imbalances are increasing in the trade on a global scale. There is no common position among the U.S. business circles and public authorities on trade openness and relations with China. With time, pressure on China to pursue the structural reforms is going to increase. The U.S. and EU have powerful arguments concerning China’s unfair trade practices but the tools chosen by Trump’s Administration to resolve trade tensions are not appropriate whereas the EU followed the defensive strategy.

2.2. Scenarios of the trade war between Washington and Beijing and its impact on the global economy

The possible consequences of the trade war depend on the future scenarios of the conflict. The chapter suggests four scenarios derived from complementary analysis of periodicals and reports of the IMF and leading think tanks and adjusted to the recent progress of the U.S.-China trade relations. Impact of the trade war on parties involved and third countries analyzed in two divisions: the impact of tit-for-tat tariffs based on disaggregated import data and the impact of the purchasing commitments of China. The analyzes found out that both the U.S. and China are carrying on significant trade losses. There is trade diversion to major American suppliers of manufactured products as a result of China’s originated import substitution in the U.S. China imports shows reduction form non-U.S. suppliers as well, Taiwan is only who gained from tariffs on the U.S. products. Import reduction in China may be an early sign of economic contraction; it threats world trade and

URL: https://www.uschamber.com/sites/default/files/tariff_data/one_pagers/ca.pdf
economic growth. In addition, a two-dimensional legal analysis of the Economic and Trade Agreement between the U.S. and China is presented.

On 15 January of 2020, U.S. and China signed the Economic and Trade Agreement that put certain obligations on China, but had not stopped the trade war yet. This important step indicated that the trade war could follow an optimistic scenario. One possible way is that the U.S. and China will roll back the tariff at the next stage of negotiation to the MFN rate and bilateral trade will go up to the prewar level. China had already released several tariffs exclusions on U.S. products (meat, soybeans, wheat, corn, sorghum, ethanol, LNG, crude oil, steel rails, aircraft parts, timber and some medical equipment). It also matters whether Trump will be reelected – split of the Administration may end in more tolerance to China once Trump is not staying for the second term. However, the only outcome that could resolve trade conflict is structural reforms of the Chinese economy that are not going soon. Moreover, the competition on the global scale and technology race between China and the U.S. will anyway continue.

The second scenario is the further escalation of trade conflict and tensions over the non-trade deal. In the case of China neglects its obligation to rebalance bilateral trade there could be a new round of tariffs by the U.S. and the decoupling of economic ties, reshoring American business to alternative destinations and stricter screening or withdrawal of investments. Aside from tariffs, new qualitative measures could be issued as well, such as blacklisting of high-tech companies. China may restrict access to its market further for foreign private sectors and use rare earth export restrictions. Trade war will be shifted more into the technological dimension while IP rights remain unsecured in China. The trade in imported products will be

101 List 1 of exemptions. URL: http://gss.mof.gov.cn/gzdt/zhengcefabu/202002/P020200221548080947968.pdf
102 List 2 of exemptions. URL: http://gss.mof.gov.cn/gzdt/zhengcefabu/202002/P020200221548081402304.pdf
103 China Briefing. How Will the US-China Trade War End? We Explore 3 Scenarios. URL: https://www.china-briefing.com/news/how-will-us-china-trade-war-end-3-scenarios/?hilite=%27Scenarios%27
distorted with imports from the third countries, where substitution is not possible the trade flows will continue and costs of additional tariffs will be passed to consumers.

Thirdly, if protectionism prevails, tariffs will become permanent; new waves of retaliation will be issued including third countries’ restrictive measures (Korea-Japan mini trade war, the U.S.-EU and EU-China trade tensions). The most pessimistic scenario - world economies will road into a global trade war, reject trade openness and WTO bodies will be completely paralyzed.

Finally, recent coronavirus pandemic may lead to unpredictable consequences. On the one hand, there are strong needs for trade stimulus and the U.S. and China may lifts up trade restrictions. The U.S. made tariff exemptions of medical equipment from China to fight the coronavirus disease.\textsuperscript{104} On the other hand, the achieved Phase One Trade Agreement could be significantly renegotiated since economic lockdown affected both demand and supply. China could be unable to comply with its obligations to expand its imports from the U.S. Moreover, the U.S. also could be unable to deliver this additional quantity of products given severe economic consequences of COVID-19.

In order to estimate the impact of U.S. tariffs on imports from China, it is necessary to disaggregate data at the 8-digit level of Harmonized System into two categories: imports from China of commodities subject to tariffs that came into four tranches and imports of commodities that are not under either of four tranches during the last 5-years. This paper analyzes U.S. tariffs’ impact on imports from China separated into four tranches and on imports separated by economic sectors.

\textsuperscript{104}Additional Modifications to Address COVID-19.URL: https://ustr.gov/sites/default/files/enforcement/301Investigations/Additional_Modifications_to_Address_COVID-19.pdf
As the graph indicated the value of China’s export to the U.S. went down almost immediately after tariffs had been imposed. Notably, the import value of phase three and phase four products have increased in the third quarter of 2018, probably because of expectations of new tariffs and stockpiling. The first list of tariffs was introduced in the second quarter of 2018, the next quarter imports from China was 25% lower than in the same period of 2019. On the annual basis imports of the List 1 products were 5% lower in 2018 and 28% lower in 2019 than in 2017.

In the fourth quarter of 2018 imports of products covered with the second list decreased by 30% in comparison with the fourth quarter of 2017. On an annual basis, the imported value of List 2 products was 55% lower in 2018 and 72% lower in 2019 in comparison with the value imported in 2017.

The effect of the third list of tariffs imposed in the third quarter of 2018 became evident in the first quarter of 2019 when the imported value was 10% lower than of the same period of 2018. The annual value of imported products covered with the additional tariffs was 22% lower in 2019 than in 2017, disrupting a 13% increase in 2018.
In the last quarter of 2019 imports from China of products covered with the fourth list of tariffs were 24% lower than of the same period in 2017. On annual basis imports of those products decreased by 2% in 2019 compared with 2017, but effect is yet to be seen in the next year.

Figure 7 – The U.S. imports from China, 2017-2019, 1000 USD.

Source: based on U.S. Census Bureau

In 2018 imports from China of products subject to tariffs (except for List 1) continued to increase because of positive dynamic in the first half of 2018 before trade war’ tariffs. In 2019 U.S. tariffs resulted in a reduction of imports from China by 23.3% in comparison with the previous year and by 16.4% in comparison with 2017. If one considers this calculation as the mirror data (neglecting statistical discrepancies and customs evaluation difference between U.S imports and China’s exports) and 2017 as a baseline year, China’s export losses comprise nearly 50 bln. in 2019 or about 10% of its total exports to the U.S. or 2% of its global exports. Total imports from China in the 2nd half of 2019 was about 20% less than in the 2nd half of 2018 and by 16.2% lower on year to year base.

Table 8 – The U.S. imports from China, 1000 USD

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<tbody>
<tr>
<td>Phase 1</td>
<td>-</td>
<td>-</td>
<td>6981855</td>
<td>6246494</td>
<td>13228349</td>
<td>6006108</td>
<td>6027196</td>
<td>5885745</td>
<td>5413486</td>
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<td>-</td>
<td>-</td>
<td>4107346</td>
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<td>32412637</td>
<td>27207483</td>
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<td>Phase 4</td>
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<td>-</td>
<td>0</td>
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<td>28689582</td>
<td>20207193</td>
<td>48896775</td>
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Table 8

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<tbody>
<tr>
<td>Total tariffed imports</td>
<td>20 120 738</td>
<td></td>
<td></td>
<td></td>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>173 303 808</td>
</tr>
<tr>
<td>Total annual imports</td>
<td>539 675 591</td>
<td></td>
<td></td>
<td></td>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>452 243 440</td>
</tr>
<tr>
<td>Share of products imported under tariffs</td>
<td>4%</td>
<td></td>
<td></td>
<td></td>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: based on U.S. Census Bureau

The share of products that were in fact imported from China under additional tariffs was just 4% in 2018 because the first two tranches were introduced in the second half of 2018. This share increased up to 1/3 of the total annual imports in 2019. It indicates that as the trade war escalates the losses are increasing sharply. Further escalation may lead to the worst-case scenario.

The following equation is estimated using the OLS method to compare the import growth of the products affected by the trade war versus those imported from China under the normal rate:

\[
\Delta m_{Ch} = B_1 + B_2 \Delta m_{ROW} + B_3 TW + \epsilon
\]

where \(\Delta m_{Ch}\) — quartal changes in the U.S. imports from China during Q12018 – Q4 2019

\(\Delta m_{ROW}\) — quartal Changes in the U.S. imports from the rest of the world during Q12018 – Q4201

\(TW\) — dummy variable, where 1/0 indicates presence

\(=/absence\ of\ trade\ war\ tariffs\ on\ the\ U.S.\ imports\ from\ China\)

Obtained \(R^2=58\%\) indicates that the model is significant. As imports from China hit by the trade war have declined significantly, we expect a negative sign for the \(B_3\) variable.

| dltm\_ImCh | Coef. | Std. Err. | t | P>|t| | [95% Conf. Interval] |
|------------|-------|-----------|---|------|---------------------|
| dltm\_ROW  | -0.000379 | .0006664 | -0.06 | 0.000 | -0.0134404 | 0.0126825 |
| TW         | -0.3219284 | .2947024 | -1.09 | 0.000 | -0.8995444 | 0.2556876 |
| cons       | 1.552112 | .2182599 | 7.11 | 0.000 | 1.124323 | 1.979901 |

Figure 8 – Changes in the U.S. import from China as a result of the trade war
Source: author’s calculations in STATA
The coefficient obtained indicates that on average the U.S. imports of products subject to tariffs during the trade war declined by 32% in comparison with those not affected with additional tariffs.

To estimate the effect of tariffs on certain economic sectors, it is necessary to compare the value of tariffed products imported in the U.S. from China in 2019 when all four tranches are in force with an import value of those products in 2018.

![Figure 9 - Change in U.S. imports from China in tariffed products, %](source)

As the figure shows the most affected with the tariffs sectors are minerals products (-55%), skins and leather (-33%), agrifood (-33%), construction materials (-30%), however the share of those products in China’s total exports to the U.S. is negligible. The value of machinery and equipment and chemicals both have fallen by 29%. Furniture, toys and other miscellaneous manufactured articles went down by 21%. The only category that shows growth by 12% is works of arts meaning that it is unresponsive to tariffs.
Firstly, the changes in the international structure of trade are highly likely to appear in those sectors where China dominates. China is the largest supplier of machinery, with a 19% share in the world exports in 2018. The share of the U.S. in China’s machinery exports decreased by 3% since 2017. The value of exported machinery to the U.S. from China was 6% lower in 2019 than in 2017.

Figure 11 – The U.S. imports of machinery and electrical equipment from its major suppliers (*only products that under U.S. tariffs on imports from China)
Source: based on U.S. Census Bureau
The largest beneficiaries of reduction of China’s exports to the U.S. were Vietnam, Taiwan, and France – imports of machinery and equipment from those countries by the U.S. increased in 2019 by 53%, 29% and 26% in comparison with 2018, while those products were coming from China with additional imports duties.

For Chinese producers of machinery besides of American market there is a gap that could be filled with its export potential in India, Vietnam and Korea: about 8 bln. US dollars on average of untapped export value as estimated by ITC. Still the U.S. shows the largest absolute difference between potential and actual exports in value terms, leaving room to realize additional exports worth 19.0 bln.105

Main products from that category of exports: parts or accessories of other machines – 11,56%, (HS 84733090/3020), rigid disk drivers – 2,7% (HS 84717010), microprocessors, presented in the form of systems -1,65% (HS 84714940/4940) are subjected to additional duties in U.S. market. Korea and Taiwan as the next biggest suppliers of machines’ parts to the U.S. are likely to take advantage of American markets. China may compensate its losses by increasing its exports of machines’ parts to Singapore, Malaysia, and India and to European destinations like Hungary, Netherlands, competing for the share with Germany.

Originated from China storage units (disks) may flow more into Mexico, Netherlands and India. But at the same time Mexico will benefit from the exclusion of parts of Chinese exports of storage units from the U.S. Suffered from, additional import duties Chinese producers of machines for semiconductors (HS 8486/HS 8462) are likely to export more to Vietnam, India and Russia. If China decides to shifts export to Europe, it will face competition with Italian and Germans (14,5% and 12,1% of world exports respectively) producers of machines and apparatus for semiconductors.

China’s exporters of data processing machines entered as a system (HS 847149) to the U.S. also will be forced to compete with Poland and Germans suppliers if producers decide to export more to the U.K. or France. Mexican suppliers of ADP machines (26,3% of the world exports – the second largest after China) will probably fill China’s losses at the U.S. market with its non-diversified exports (96,8% goes to America).

Portable data processing machines are accounted for 26,38% of total China’s machinery export to U.S. (HS 84713090/ 84713001) was subjected to tariffs in the last tranche (List 4B), but canceled after the Peace Deal. Several also large positions are not subjected to duties: tablet computers - 7,35% (HS 84713010), process units of microprocessors – 3,62% (HS 84715040) continue to be imported in U.S. Telephone sets, monitors are also no more under additional imports duties since according to the Agreement the last trance has been canceled. Machines for the reception of voice/image and parts thereof are subjected to tariffs in the tranche 4A and now decreased (from 15% to 7,5%) tariff rate applies.

Figure 12 – The U.S. imports of vehicles (*only products that under U.S. tariffs on imports from China)

Source: based on U.S. Census Bureau
While the U.S. imports of vehicles from China decreased by 20%, imports of the same products from Austria increased by 47%, from Korea increased by 15%, from Mexico by 8% in 2019. Japan did not gain however, the U.S. imported by 5% less from there.

U.S. imports of railway equipment from China decreased by 16% in 2019 relatively of 2018. The U.S. share in exports of China’s railway equipment shrank from 29% in 2017 to 19% in 2019. If China shifts its railway equipment to the EU producers will compete with Germany, the second-largest supplier. China’s producers of wheels and parts of railway or tramway vehicles, locomotives parts are likely to compete stronger with the Americans in the market of Australia. Export potential for China’s railway equipment exists in Russia, Kazakhstan and India. The value of other than railway or tramway vehicles imported from China decreased by 20%. The value of aircrafts, spacecrafts and parts thereof is the only subsector among vehicles that show the growth by 2% despite tariffs (probably because it reflects U.S. imports of own vehicles from foreign affiliates). The value of ships and boats imported from China to the U.S. went down by 26% in 2019 relatively 2018. At the same time, the U.S imported more of those products from Taiwan, Mexico and Italy.

Figure 13 – The U.S. imports of ships and boats (*only products that under U.S. tariffs on imports from China)

Source: based on U.S. Census Bureau
Imports of ships and boats by the U.S. from China decreased by 26%, whereas imports from Taiwan increased by 70%, from the U.K. by 15%, from Italy by 21% and from Mexico by 10%.

The next graph shows the export losses of the U.S. as the result of four tranches of China’s tariffs on imports from America that are accounted for 185 bln. (almost 3 times less in the volume that the U.S. tariffs applied on 550 bln. US dollars of Chinese products only).

Figure 14 - China’s imports from the U.S., Q1-2014-Q4-2019, 1000 USD
Source: based on China’s General Customs Administration

The first three lists of China’s retaliation tariffs were imposed in July, August and September of 2018, the next quarter (Q4 2018) imports of those products from the U.S. decreased. The fourth list of tariffs was imposed in September of 2019, the effect became evident in the next quarter.

In the fourth quarter of 2018 (the next quarter after the first list of tariffs was imposed) China’s imports from the U.S. of products subjected to additional duties were 74% lower than in the same period of 2017. On the annual basis China’s imports of products covered with the first list of tariffs were 31% lower in 2018 and 41% lower in 2019 in comparison with 2017.
In the fourth quarter of 2018 China imported tariffed products from the U.S. by 46.6% less than of the same period of 2017. On annual basis imports of products covered with the second list of tariffs were 14% lower in 2018 and 56% lower in 2019 than in 2017.

In the fourth quarter of 2018 imports from the U.S. of products covered with the third list of tariffs decreased by 10% in comparison with the fourth quarter of 2017. On the annual basis effect of tariffs became evident in 2019 with the import value of 8% less than of 2017, while in 2018 there was an increase of 13% in comparison with 2017.

In the last quarter of 2019 value of products covered with the fourth list of tariffs was 37% less of the value of those products imported in 2017. On the annual basis the value of imported products covered with the fourth list of tariffs was 29.5% lower in 2019 than in 2017.

In 2018 imports of tariffed products from the U.S. started to fall except of the third list. The imports of products covered with the second list of China’s tariffs almost halved, it included among other products fuels and coal. Total imports from the U.S. to China went down by 20.4% in 2019 in comparison with 2017.
Imports of products covered with retaliations tariffs coming in four tranches declined in 2018 by 6% and in 2019 by 27% in comparing with 2017. Considering this calculation as mirror data and treating 2017 as a baseline year U.S. carries on export losses of 34 bln. dollars or 22% of its total export to China or 2% of its global exports. To compare China’s export losses in the U.S. market comprised 10% or 2% of its export to the world, meaning that both parties’ economies are suffered from impact of the trade war.

![Figure 16 – Changes in China’s imports of tariffed products from the U.S., %](source: based on China’s General Customs Administration)

The most affected categories of the U.S. exports to China were pearls and stones, mineral products, woods and papers, skins and leather, plastics and rubber, textile and base metals. However not all those products are equally important for the U.S.- China trade. The share of covered with tariffs products form the categories of textile, skins, pearls are less than 3% of total China’s imports from the U.S.

As the next figure shows American exporters of agrifood, machinery and equipment, chemicals and mineral products, vehicles and instruments are more likely to be affected by China’s tariffs.
Similar to the export structure of China to the U.S., machinery and electrical equipment are accounted for a significant share of U.S. exports to China. On the one hand, the substitution of those high-assembled products could be difficult and time-consuming for China. If one looks at the structure of China’s imports by a partner, it is notable that the U.S. was not the first supplier for this category of products. However, as shown further China’s import of industrial products has declined in general.

Figure 17 - Share of tariffed products in China’s imports from the U.S.,%
Source: based on China’s General Customs Administration

Figure 18 – China’s imports of machinery (HS 84) from major suppliers (only products that covered with the tariffs on U.S. imports)
Source: based on China’s General Customs Administration
As the Figure 18 shows China’s imports of machinery increased only from Taiwan, others did not gain from China’s tariff on the U.S. machinery. Exports of tariffed machinery from the rest major suppliers to China went down.

![Graph showing China's imports of machinery from major suppliers](image)

**Figure 19** – China’s imports of electrical equipment (HS 85) from major suppliers (only products that covered with the tariffs on U.S. imports)

Source: based on China’s General Customs Administration

Figure 19 demonstrates, no countries substitute the supply by the U.S. of electrical equipment of tariffed groups to China. Moreover, exports from major suppliers like Korea and Vietnam sharpened even stronger. It could be explained that China switches more to self-reliance or intra-industry trade is disrupted.

![Graph showing China's imports of soybeans from major suppliers](image)

**Figure 20** – China’s imports of soybeans form major suppliers, Q1-2018-Q4-2019

Source: based on China’s General Customs Administration
China’s imports of soybeans were highly volatile during the last 2 years. The top of agricultural products imported from the U.S. is soybeans. In July 2018 China refused to purchase U.S. soybeans and imports dropped already in the third quarter of 2018. American farmers complained about a detrimental trade war impact on their business. At the end of 2019 parties announced the interim regime of the Peace Deal and China agreed to increase purchases of soybeans.

As Figure 21 showed imports of soybeans from the U.S. to China on an annual basis decreased by 5%. Brazil was deemed to be the primary beneficiary from this trend, but its exports of soybeans declined by 20% as a result of African swine fever in China. At the same time, China exported 6 times more soybeans from Argentina and diversified its exports with Uruguay products.

For neither manufactures nor electrical machinery nor fuels, the U.S. is the number one exporter to China. Soybeans, rare earth and the U.S. Treasury holdings are advantages in the hand of Chinese diplomacy. As the analysis of the imports dynamic showed China had not found substitutes for a major part of its industrial imports from the U.S. However, the economic growth of China is more dependent on the demand from abroad than of the U.S.
Concerning the trade diversion effect, there are different patterns of substitution for the U.S. of those products that covered with tariffs on China’s imports and for China of those products that come from the U.S. with additional tariffs even in the same sectors. As the analysis shows, the U.S. imports more machinery and electrical equipment from its next biggest supplier while lowers supplies of those products from China. China’s import of machinery and electrical appliances that are under tariffs declines from the U.S. as well as from other sources. It could be explained that China consumes less as economic growth diminishing or/and relies more on its domestic production encouraging by its industrial plan. Another explanation of lower imports of machinery and electrical equipment could be disruptions of supply chains as a result of weaker confidence or increased costs caused by the trade war. Alternatively, China may need more time to find suppliers to substitute the U.S. share.

Another aspect of the U.S.-China decoupling is disinvestment. The Committee on Foreign Investment in the United States targets Chinese inward investments and blocks several acquisitions on the national security grounds.\(^\text{106}\) Trump’s approach implies the repatriation of enterprisers from China’s back to the U.S. or alternative destinations. In 2017 (the latest available data) sales by foreign affiliates of U.S. firms in China totaled 543,9 bln. (up to 17,\% from 2016) making China the third-largest destinations after the U.K. and Canada for U.S. foreign affiliates firms abroad.\(^\text{107}\) Taking into account that China has the highest manufacturing capacity (4 trln. or almost two times as much as the U.S. where capacity is 2,1 trln.\(^\text{108}\)) and relatively low operational costs MNCs foreign affiliates are not likely to give up their position in China soon. The COVID-19 events however have shown that U.S. worries have the ground since over-reliance on China’s supply environment caused disruptions in

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\(^{106}\) The Committee on Foreign Investment in the United States (CFIUS) Updated February 14, 2020. URL: [https://fas.org/sgp/crs/natsec/RL33388.pdf](https://fas.org/sgp/crs/natsec/RL33388.pdf)

\(^{107}\) U.S. Bureau of Economic Analysis. URL: [https://apps.bea.gov/iTable/iTable.cfm?ReqID=2&step=1](https://apps.bea.gov/iTable/iTable.cfm?ReqID=2&step=1)

many sectors worldwide. Diversification of sources could be a better strategy, most probably ASEAN countries and India will benefit from reshoring foreign business from China. ASEAN released a new stimulus in the form of the tax break to attract foreign investors whose business was hit by the trade war. 109

The interim result of the U.S.-China negotiation is the partial Agreement signed at the beginning of 2020. The concluded Economic and Trade Agreement known as the Phase One of Peace Deal between the U.S. and China consists of eight Chapters described below. 110 Legal analysis of any international agreement suggests at least two dimensions: content (width and depth, content versus effective content) and strength (credibility and effectiveness and political commitments). 111

For the vertical width of the content, the signed Agreement includes scope of areas beyond the WTO Agreements, it includes provisions on macroeconomic and monetary policies and more specifically addresses the technology transfers. As for the horizontal width the issues of competition policy (for example activities of SOEs, industrial subsidies) are not included, only shallow provision on investment is incorporated with respect to technology transfer. Depth of content is not easy to determine, while the U.S. is calling the deal of the historical importance, the ambitious language of the Agreement may be associated with a lack of regulatory effect de facto. Nevertheless, the Agreement (Chapter 1) deepens obligations on the protection of pharmaceutical-related IPRs: compensation for unreasonable delays, early resolution of patent disputes over potential generic drugs (similar to the U.S. law). Notably, Chapter 3 of the Agreement indicates the depth of certain obligations on trade in agriculture, as the U.S. and China compromise on the establishment of the

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110 Economic and Trade Agreement between the U.S. and China URL: https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Economic_And_Trade_Agreement_Between_The_United_States_And_China_Text.pdf

uniform rule concerning SPS, namely recognizing the U.S. dairy safety system as a benchmark.

The value-added of the Agreement or effective content could be identified by subtracting already undertaken commitments by Members within the multilateral system. The effective content of this Agreement concentrated in Chapter 4, where China agrees to open up more its financial sectors beyond its Schedule of Commitments: banking, insurance, asset management, and payment and fund management. For example, according to China’s Schedule of Specific Commitments on all insurance and insurance-related services: «upon accession foreign life insurer will be permitted 50% foreign ownership in loin venture with a partner of choice».112 Under the Deal with the U.S. «no later than April 1, 2020, China shall remove the foreign equity cap in the life, pension, and health insurance sectors and allow wholly U.S.-owned insurance companies to participate in these sectors. China affirms that there are no restrictions on the ability of U.S. - owned insurance companies established in China to wholly own insurance asset management companies in China».

Concerning the second dimension – the strength, effectiveness, and credibility generally are achieved via the establishment of Bilateral Evaluation and Dispute Resolution, meaning that if Party failed to carry out obligations there will be remedies or suspension of obligations. Besides, the U.S. and China committed to creating the Trade Framework Group to provide high-level engagement and engage in daily work as well. Political commitment, taking into account competitive relations of the U.S. and China for geopolitical positions and rule-breakers behavior, is hard to estimate. The Agreement suggests Action Plan for China within 30 working days after the date of entry into force to implement obligations on strengthen of IPRs. However, Phase

112WTO. Trade in Services - The People's Republic of China - Schedule of Specific Commitments. https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S006.aspx?Query=(@Symbol=%20gats/sc/*)%20and%20((%20@T
One of the Peace Deal at least reflects the political will to move towards cooperative strategy and the Deal is better than a long-standing tit-for-tat.

The Agreement is incompatible with the existing multilateral trading rules. Firstly, trade expansion in favor of the U.S. by China constitutes a violation of the cornerstone MFN principle - «any advantage, favor, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties» (GATT, Article I). The same applies to trade in service. Secondly, the Agreement opens the way for further unilateral retaliation and violates Art. 23.2(a) of DSU on the prohibition on unilateral determinations.

- **Chapter 1. Intellectual Property**

  China agrees to enhance intellectual property rights protection, namely to strengthen cooperation on the trade secrets and confidential business information protection; to extend the term of a patent to compensate for unreasonable delays that occur in the pharmaceutical sector (an effective system of patents), to develop core e-commerce platforms and simplify access to its market, to strengthen the legal protection of patents, trademarks, copyrights, including the improvement of criminal and civil investigation to combat piracy and counterfeit goods.

  Width of content is not greater than of TRIPS that sets rules and disciplines on the protection of all categories of IPRs including mentioned in the Peace Deal trade secrets, CR, patents, GI. The provision of Chapter offers improvements for IPRs protection but echoes already undertaken obligations of China under the WTO Agreements. Article 41 of the TRIPS Agreement recognizes that Member’s legal system shall permit effective action against any act of infringement of intellectual
property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringement. Effective content is limited to the protection of pharmaceutical-related IP that sets more detailed disciplines than TRIPS.

• **Chapter 2. Technology transfer**

The Agreement prohibits a forced technology transfer as a condition for conducting business in China by foreign enterprises. China agrees not to support or to direct the outbound foreign direct investment activities of its persons aimed at acquiring foreign technology with respect to sectors and industries targeted by its industrial plans.

However, the provision is unlikely to stop technology transfer that is unproven as forced and could be quasi voluntary. The promise resumes China’s obligation under the WTO umbrella and China’s new Foreign Investment Law (FIL). According to Section 7.3 of China’s Protocol of Accession (and binding paragraph 207 of the Working Party Report) «any means of approval for importation or investment shall not be conditioned on …the transfer of technology». Article 8.2 of TRIPS states about the necessity of appropriate measures to prevent «the abuse of intellectual property rights by right holders or the resort to practices, which unreasonably restrain trade or adversely affect the international transfer of technology». TRIPS however sets minimum protection standards, there are needs for a new more comprehensive Agreement on the issue of technology transfer. The roots of the problem are China's legal domestic system. In June 2018 the EU had requested a consultation with China on the Certain Measures on the Transfer of Technology, later the U.S. joined the consultations. Article 22, Article 23 and Article 39 of the China FIL effective from

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114 WTO DS. URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds549_e.htm
January of 2020 promise enhance protection of IPRs and prohibit forced technology transfer. FIL in conjunction with the Peace Deal will bring tangible results for foreign investors in perspective.

- **Chapter 3. Trade in food and agricultural products**

  China agrees to eliminate restrictions related to SPS regulation on imports of several agricultural products from the U.S to expand trade. China has agreed to make unprecedented commitments to automatically recognize the U.S. diary-safety system as equivalent to China’s. China’s obligations in the field of SPS regulation do not contradict the rules of the WTO, but they can significantly increase the competitiveness of American goods in comparison with goods from third countries.

- **Chapter 4. Financial services**

  China agrees to simplify access to its financial market and to eliminate long-standing barriers for American financial service providers. Importantly China agrees to accept the license application of U.S. electronic payment services supplier, including any license application of Mastercard, Visa, or American Express. China is committed to removing the foreign equity cap in life, pension, and health insurance no later than April 1, 2020.

  The agreement provides for significantly more liberal conditions for access to the Chinese market for U.S. services and service providers that even go beyond China's WTO obligations. In particular, prohibitions and limits on foreign participation in the capital of companies in several sectors (for example, insurance, electronic payments, activities of rating agencies, activities in the securities market) are lifted; some prudential requirements are relaxed (for example, capital adequacy).

- **Chapter 5. Macroeconomic policies and exchange rate matters and transparency**

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This area is out of regulation by the WTO and mainly at the discretion of IMF. At the end of 2019, China was withdrawn from the currency manipulator status. China agrees not to undervalue its national currency as a way of achieving an unfair competitive advantage. However, the issue is not of relevant importance, since the U.S. has already withdrawn China’s currency manipulator status.  

**Chapter 6. Expanding trade**

China undertakes to increase its imports from the U.S of manufactured goods, agricultural goods, energy products, and services identified in Annex 6.1 of Agreement by no less than 200 billion dollars for 2 years from now. China's obligations to purchase goods from the United States are significant - in addition to restoring imports from the United States to the level of 2017 of 186 billion from the current level of 170 billion, China is committed to additionally purchase another 200 billion in goods and services from the United States in two years. Thus, the volume of additional purchases of China to the United States from the current level will be approximately 240 billion over 2 years.

<table>
<thead>
<tr>
<th>Product category</th>
<th>Year 1</th>
<th>Year 2</th>
<th>2-year total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufactured goods</td>
<td>32,9</td>
<td>44,8</td>
<td>77,7</td>
</tr>
<tr>
<td>Agriculture</td>
<td>12,5</td>
<td>19,5</td>
<td>32,0</td>
</tr>
<tr>
<td>Energy</td>
<td>18,5</td>
<td>33,9</td>
<td>52,4</td>
</tr>
<tr>
<td>Services</td>
<td>12,8</td>
<td>25,1</td>
<td>37,9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>76,7</td>
<td>123,3</td>
<td>200</td>
</tr>
</tbody>
</table>

Source: Economic and Trade Agreement between the United States of America and the People’s Republic of China

The additional purchases form the U.S. theoretically will lead to more balanced trade with China and improve the position of American farmers. The U.S. export of services to China could be an efficient way to decrease the total trade deficit with China. However, another side of the coin is that this target will be achievable by China with its STEs. The trade expansion of this kind is against of market economy.

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and will lead to trade distortions globally further especially given the additional import tariffs.

- **Chapter 7. Bilateral evaluation and dispute resolution**

  China and the U.S. agree to establish a Bilateral Evaluation and Dispute Resolution Arrangement in order to resolve tensions in the economic and trade relationship. Therefore, the Agreement establish institutional arrangements to guarantee the implementation of the rule – judicial control.

  The U.S. concessions are very limited, through the Agreement it is suggested that already «…existing U.S. measures afford treatment equivalent to that provided» in respective Articles of the Agreement. The United States agrees in exchange to halve the tariff rate introduced on September 1, 2019, to 7.5% (by about 112 billion of Chinese goods per year), tariffs of 25% on Chinese goods worth 250 billion introduced earlier will remain unchanged. They can be canceled as part of the second phase of trade negotiations and will leave leverage for American negotiators. The tariffs, which were supposed to enter into force on December 15 of 2019 for Chinese goods in the amount of 160 billion, including mobile phones, laptops, toys and clothes, were suspended for an indefinite period. Chinese retaliation tariffs from December 15, including a 25% tariff on US-made cars, are also suspended.

  In case China follows undertaken obligation to expand its import form the U.S. the structure of trade will be redistributed in favor of Washington. Notably structure will be changed for trade in agriculture and trade in energy.
A possible consequence of Peace Deal could be a reduction of China's industrial imports (industrial machinery, electrical equipment’s, integrated circuits) from Taiwan, South Korea, Malaysia and reduction of cars, aircraft, vehicles imports from Japan and the EU while increasing imports of these goods from the United States.

Figure 22 – Share of the U.S. in China’s imports of manufactured goods subjected to tariffs, %
Source: based on ITC

Figure 23 – Share of the U.S. in China’s imports of agrifood products subjected to tariffs, %
Source: based on ITC
Brazil as the largest soybeans and meat exporter to China is going to lose due to the Agreement between China and U.S. Russia’s and Canada’s shares as of seafood suppliers to China is expected to decrease as well. New Zeeland and Australia are going to lose if China imports from the U.S. more dairy products.

As the graph shows the U.S. may crowd Russia as the biggest energy supplier from the Chinese market. The shares of Saudi Arabia, Angola and Iraq are expected to decrease as well, making energy diversification in China more troublesome. If China will expand its import in accordance with the signed Agreement by 52,4 billion dollars over 2 years from now the share of the U.S. will be even higher than of Russia in 2017 which is the baseline year.

The issue of the MFN regime application arises from the provision of Agreement that grants more favorable conditions for American goods on Chinese markets for trade in goods, energy, services, and guarantees of IPR’s protection. Simplifying access to the financial market of China theoretically should favor third countries’ providers of these services, including Russian ones. It is under question whether for example at the WTO consultation Russia may request from China
expansion of trade based on the same calculation as the Peace Deal in the context of the development of bilateral trade relationships. Other measures, such as those related to the monetary policy or the transfer of technology (partially), are not regulated by the WTO, and therefore theoretically can only be applied in mutual trade.

Rolling back of tariffs, the activity of the Chinese State Enterprises, industrial subsidies and some other issues are left for discussion at the next phase of the Peace Deal. Structural changes in China’s economy are not coming or speeding up. Cited in Section 301 of the USTR Report alongside the technology transfer China’s cyber intrusions into U.S. computer networks are not even mentioned in the deal.\textsuperscript{117} Moreover, because of COVID-19 negative impact on economies parties may be not able to meet its commitments. According to Article 7.6 (Miscellaneous) of the Agreement in the case of force major event Parties shall consult each other.\textsuperscript{118} China may invoke this clause given that the volume of additional purchasing from the U.S. was initially burdensome and had a distorting effect on its third trade partners.

The U.S. and China retaliation’s tariff come in four tranches. According to the Agreement, the first three lists of the tariffs are still applied. The U.S. tariffs effective from December of 2019 (cellphones, toys, and laptops) are canceled and tariffs effective from September of 2019 reduced from 15% to 7.5% on 120 billion worth of Chinese products (flat-panel televisions, Bluetooth headphones, and footwear). Under COVID-19 impact several tariffs exclusions on the medical and health-related products were granted in March of 2020. Lists of additional import duties on products imported in the U.S. from China is presented in the Annex.

Figure 22 shows the quarterly GDP growth in the U.S. since the second quarter of 2019 staying below 5-years average growth. In China, quarter GDP growth is steadily falling below the 5-years average point since the second quarter of 2018. The

\textsuperscript{118} Economic and Trade Agreement between the United States of America and the People’s Republic of China, p. 7-4.
trade war between the U.S. and China is undermining economic growth in both countries, lowering the purchasing power of its consumers through higher prices and smaller choices, disrupting supply chains, causing a threat to the business environment and labor forces. The negative impact taking countries shares in world GDP will lead to weaker business confidence, slower investment activity and diminish the role of multilateral institutions.

![Figure 25 – GDP growth of the U.S. and China, 2018-Q1 – 2019-Q4](https://data.oecd.org/gdp/quarterly-gdp.htm#indicator-chart)

Source: OECD

According to World Trade Statistical Review during the last 10 years there is interesting pattern: world GDP and trade are moving at the same rate - both grew by 26% since 2008. This brings to the point that trade openness is transforming to trade dependence. While liberalization of trade contributes positively to economic growth and poverty alleviation, export-led growth model or import dependences (both derived from increased trade openness) especially in developing countries make national economy sensitive to a wide range of changes and impulses from abroad.

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119 OECD Data. URL: [https://data.oecd.org/gdp/quarterly-gdp.htm#indicator-chart](https://data.oecd.org/gdp/quarterly-gdp.htm#indicator-chart)

Year-on-year growth in the volume of world merchandise trade fell from 3.9% in the first half of 2018 to 2.7% in the second half of the year.\textsuperscript{120} Whereas global trade integration is slowing, support for the trade openness has also been decreasing worldwide. Importantly, third countries may rethink their trade strategies in order to lessen exposure to external shocks through higher domestic consumption or regional initiatives and export diversification. According to the Global Trade Alert report during the Populism Era (from the beginning of Trump’s Presidency) states change their commercial policy significantly toward protectionism and corporate leaders react naturally by postponing or even curtailing investments. The U.S.-China trade war has had some negative spillover effect, it is accounted for the fifth part of overall trade distortion in the past three years, but still two times more than before 2017.\textsuperscript{17}17

World trade faced new barriers during the last two years as trade tensions and economic policy uncertainty rose sharply. Rating of new export orders in the Purchasing Managers’ Indices (PMI) in April 2019, indicating contraction – an early sign of a turnaround in world trade. The economic policy uncertainty index reached its highest record in May of 2019 (excluding 2020 peak because of COVID-19).\textsuperscript{121} Phase One of the Peace Deal between the U.S. and China has given some positive signals to markets. It reduces the drag on global GDP growth in 2020 and 2021 from the measures implemented over the past two years by around 0.1% point per annum.\textsuperscript{122} But remaining tariffs in conjunction with distortionary provisions of managed trade continue to be a factor of uncertainty and lower demand for goods.

The materialization of a global uncertainty shock, such as a trade war, may change the trade policy landscape towards retreat from openness and higher reliance

\textsuperscript{121}Policy Uncertainty. URL: http://policyuncertainty.com/global_monthly.html
on domestic consumption or intraregional trade.\textsuperscript{123} A rise in protectionism and retreat from multilateralism could depress the growth globally also lead to technological decoupling and the unraveling of global production chains, resulting in lower productivity growth going forward.\textsuperscript{124}

According to the OECD, due to the trade confrontation between Washington and Beijing, global trade growth will slow by 0.4% by 2020. In 2019, merchandise trade volumes decreased on annual basis first time since 2009.\textsuperscript{125} This outcome confirms that even there are short-term gains for third countries because of trade diversion effect, the long-term effect of trade war discourages investment that in turn lowers manufacturing trade and depresses economic growth.

The impact of the trade war on third countries is summarized in the table below.

Table 10 – The trade war impact on the third countries

<table>
<thead>
<tr>
<th>Countries/regions</th>
<th>Consequences</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>Competition of domestic producers with China manufacturing products that will flow to European markets instead of the U.S.</td>
</tr>
<tr>
<td></td>
<td>Germany, France, Netherlands win the share at the U.S. markets of machinery and electronic appliance. Austria gained in vehicles export to the U.S. Italy and UK (former EU Member) gained in exports of ships and boats to the U.S.</td>
</tr>
<tr>
<td></td>
<td>EU will benefit if the U.S. forces China to secure IPRs and speed up service market opening.</td>
</tr>
<tr>
<td></td>
<td>Possible reduction of China’s imports of vehicles and aircraft as a result of the Peace Deal between the U.S. and China.</td>
</tr>
<tr>
<td>Energy exporters</td>
<td>Reduction of energy exports to China as result of slow downing of China’s economy and consequently of demand for fuels because of the trade war. Peace Deal is also going to cause the reduction of China’s imports due to commitments to purchase more from the U.S.</td>
</tr>
</tbody>
</table>


\textsuperscript{125}OECD. Economic Outlook: Weak trade and investment threaten long-term growth URL: \url{https://www.oecd.org/economy/economic-outlook-weak-trade-and-investment-threaten-long-term-growth.htm}
<table>
<thead>
<tr>
<th>Countries/regions</th>
<th>Consequences</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIC (1st wave)</td>
<td>Catching untapped demand for manufactured products in the U.S. as a result of trade war: Taiwan – machinery and electrical equipment, toys Korea – vehicles and parts thereof. Taylor gained from exports of machinery to China.</td>
</tr>
<tr>
<td>Latin America</td>
<td>Reduction of agricultural exports to China as a result of the Peace Deal. Brazil, Argentina and Uruguay exporters of soybeans who were deemed to benefit from China’s tariffs on the U.S. soybeans are likely to lose if China will meet its commitments to buy more from the U.S. Under the scenario of the continued trade war, Chinese importers of soybeans from the U.S. are likely to diversify its exports from Latin America producers. Mexico wins more shares at the U.S. market in machinery, electrical equipment, vehicles and manufactured miscellaneous Mexico could be an alternative destination for U.S. foreign affiliates shifting from China’s supply ecosystem.</td>
</tr>
<tr>
<td>NAFTA (USMCA)</td>
<td>Higher Canadian exports of miscellaneous to the U.S. (furniture and other manufactured miscellaneous). No substantial gains of Canada in exports of machinery, electrical equipment and vehicles to the U.S. Higher Mexican exports of machinery and electrical equipment, vehicles to the U.S. Lower output in the sectors connected to U.S. production (as result of the U.S. tariffs): In Canada this relates to chemicals, metals and vehicles, in Mexico, textiles, apparel, electronics, machinery and vehicles. There is a decline in employment in heavy manufacturing, extraction and services. [Walmsley&amp; Minor, 2017:20–24]</td>
</tr>
<tr>
<td>Japan</td>
<td>Increased exports to the U.S. of machinery and electrical equipment, vehicles and parts thereof. But the threat of reduction of China’s imports of vehicles as a result of the Peace Deal from Japan.</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Higher exports to the U.S. of manufactured miscellaneous. Indonesia: toys, clothes; Malaysia: electrical equipment; Vietnam: electrical equipment, furniture, clothes, toys; Thailand: rubber. The inflow of foreign investors affected the trade war, relocation of manufactures from China to ASEAN countries because of diversification due to over-reliance on China’s supply ecosystem.</td>
</tr>
</tbody>
</table>

Source: made by the author

While trade war had opened niches to third countries for export expansion to the U.S. and to lesser extent to China, the implementation of the Peace Deal will roll back these gains and even create new harm especially for suppliers to China.
Managed trade flows between the U.S. and China will incur ineffective allocation of resources, higher costs for all economies and erosion of multilateralism.

To ensure their commercial interests national economic agencies should accurately plan investments and diversify geographical trade structure. Affected Chinese and American export seeking industry associations are likely to keep the pressure on their respective governments for tariffs rollback. Third exporters to China should plan their shipments taking into account Phase One damage to them and look for alternative destinations. For example, ITC develops a free tool to find out the best market for particular commodities exports with untapped yet demand. From the side of governments it is reasonable to dispute provisions on trade expansion at multilateral forum, but given ongoing institutional crisis of the WTO and unwillingness of the United States to honor its WTO commitments the solution is complicated. Moreover, retaliation by third countries will only tighten global tensions. Instead of retreat from multilateralism, country should create business incentives. For example, ASEN countries responds to the trade war by improving the investment environment to attract those who suffered from over-reliance on China’s manufactures. China Plus One strategy will open opportunities to build regional value chains, while foreign investors will also hedge risks.

The trade war is certainly a lose-lose outcome, while trade is not a zero-sum game. As a result of the U.S. tariffs its imports from China of affected products decreased by 23,3% in 2019 in comparison with 2017. It is accounted for nearly 78 bln. of China’s export losses or 17% of its total export to the U.S. or 3% of its global exports. Cross-section regression shows that the U.S. imports of products subject to tariffs during the trade war declined by 32% in comparison with those not affected with additional tariffs. In 2019 China managed to maintain 84% of its total export to

the U.S. Most affected with the tariffs sectors of the Chinese economy are machinery and chemicals – reduction by 29%, manufactured miscellaneous (furniture, toys, garment) – reduction by 21%.

Because of China’s tariffs, its import from the U.S. of affected products went down by 22% in 2019 it comprised nearly 27 bln. of the U.S. export losses or about 7% of its total export to China or 2% of its global exports. In 2019 the USA maintained 80% of its total exports to China. Among the most affected with the trade war sectors of the American economy are mineral products – 60% reduction, vehicles – 16% reduction, machinery and electrical equipment – 15% reduction, base metals – 24.6% of reduction, agri-food exports – 6% of reduction. While China is the biggest consumer of U.S. of LNG and crude oil, China is less dependent on imports of those products from the U.S.

Harm to the U.S. economy is passed through higher consumer prices and increased costs of intermediate inputs for importers. China suffers from the trade war due to higher export orientation of economy and threat of relocation of foreign enterprisers to alternative locations. The trade war has a negative impact on world trade and investments. In the second half of 2018 trade volume growth went down to 2.7% from 3.9% in the first half of 2018. Despite the overall negative impacts of the trade war, third countries such as Mexico, Vietnam, Taiwan gained through increased exports of manufactured products to the U.S. as a result of the substitution of Chinese products. The effect of substitution of high-assembled American products in Chinese imports is less obvious. Argentina and Uruguay gained through increased exports of agricultural products to China (mainly soybeans).

The Economic and Trade Agreement between the U.S. and China signed at the beginning of 2020 indicates the de-escalation of the trade war. Under the Peace Deal

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China is committed to increasing by 200 bln. imports from the U.S. in two years. The agreement may redistribute trade in the favor of Washington in the energy and agricultural sectors, but the demanded structural reforms are not coming in China.

2.3 The USA-China trade war: possible consequences for Russia

Russia maintains a neutral position in the trade war aiming to conduct independent trade relations with the U.S. and China.\textsuperscript{128} Policymakers suggested that abandonment of the Chinese market by the U.S. would open more opportunities for Russian export expansion.\textsuperscript{129} Moreover, the Chinese-Russian trade ties are considered as a strategical alliance with the potential to phase out the U.S. exports from Asian markets and value chains.\textsuperscript{130} The following chapter estimates the current impact of the trade war on the Russian economy and possible consequences of Phase One of the Peace Deal which is likely to damage what Russia had gained in the course of the trade war.

China is a large economy with a high rate of energy consumption. Two trade war’ channels may influence its imports of Russian energy products: a possible lower demand as result of a slowdown in production and commitments to buy more energy from the U.S.

The trade war in conjunction with COVID-19 consequences is likely to lower China’s demand for mineral fuels as the economic growth slowdowns. It will negatively affect the economy of the Russian Federation where revenue from oil and gas selling accounts for one-third of the domestic budget.\textsuperscript{131} As estimated in studying the tariffs target 63% of all energy-related imports to the U.S. from China such as

\textsuperscript{128}Russian Business Consulting. URL: https://www.rbc.ru/economics/14/05/2019/5cda8c909a79477f314e7eef
\textsuperscript{129}Russian Information Agency. URL: https://ria.ru/20181128/1533692424.html
electricity transmission equipment, metal products, electrical machinery, computers, and plastic products. Consequently, while the U.S. partly substitutes imports of those products from third countries, the demand for export from China will fall down.

Russia comes as the largest crude oil supplier to China in December of 2018, while geopolitical uncertainties also forced China to import less from countries such as Iran and Venezuela. As has been mentioned in the previous chapter China is committed to import from the U.S. of energy by 52.4 bln. of dollars over 2 years period. It threatens the position of Russia. The increase in natural gas and oil imports of China from the USA contradicts to the realization of Russian-Chinese projects in the sphere of energy. According to the Agreement between Russia and China oil supplies through the Skovorodino-Mohe pipeline should double from 15 to 30 mln. tons beginning from 2018. The Power of Siberia signed in May of 2014 is a 30-year gas supply agreement that estimated to cover 25% of the gas demand in northeast China, Power of Siberia-2 is under discussion. Now the realization of supplies is under threat, moreover, parties will carry out indirect losses from pipeline underload.

An alternative point of view is that Russia will benefit from stable prices on energy as a result of the U.S.-China de-escalation and reviving economic activity. Redirection of American gas supplies from European to the Chinese market will probably favor Gazprom supplies to the EU. Russian experts said that long-term contracts between Russian and China could not be disrupted with the U.S.-China Trade Agreement. Moreover, it is estimated that being net-importer the U.S. is unable to deliver the proposed quantity of oil and gas as to overtake the Russian share. The risk of tougher competition with American exporters on the Chinese market will

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131Federal Budget. URL: https://www.minfin.ru/ru/statistics/fedbud/
however arise in the field of gas supply: the construction of the Power of Siberia-2 gas and purchases of Russian LNG from the second Arctic project Novatek, Arctic LNG-2 may be deteriorated.

![Diagram 26](image)

Source: China’s General Customs Administration

![Diagram 27](image)

Source: [http://43.248.49.97/indexEn](http://43.248.49.97/indexEn)

Up to now, the trade war did not contribute to China’s lower imports of petroleum oils from Russia and from the world. From the beginning of 2018 quantity of imported oils tends to increase. Permission by the Chinese government from 2015
to process imported oil by national refiners boosts consumption further. However, the volatility of oil prices wipes out positive trends for Russia. Finally, China’s energy import in value terms is expected to decrease due to COVID-19 lockdown, whereas lower prices may favor purchasing to fill energy reserves and fulfill obligations under Peace Deal.

Aside from the trade war effect, there is a long-term trend in the reduction of China’s carbon intensity of industry consumption. As the graph shows the intensity of carbon consumption in China has been steadily decreasing since 2009.

![Figure 28](image_url)

**Figure 28- China’s total primary energy supply (TPES) by GDP, toe/thousand 2010 USD**

Source: IEA Energy Transitions Indicators

Figure 28 shows the line for the energy intensity of China’s economic trend is downward. According to IEA, the amount of energy used to generate a unit of GDP, called (TPES) decreased globally by 35% between 1990 and 2017, with large regional variations. In China, intensity more than halved (-70%) over this period.

Important in the context of economic diversification rise of Russian non-energy exports to China is also now under threat. Since 2015 Russian exports of processed food and agro-based products to China have been increasing. Russia becomes a net

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food exporter to China in 2018. China lifted up the restriction on the import of soybeans that was allowed only from certain regions of Russia. In the course of the trade war, Russia managed to increase exports of soybeans in the second half of 2019 by 40% in comparison with the same period of 2018. In September of 2019 Rusagro reported about the first contract at oil extraction plants and sugar plants were permitted to supply meal and beet pulp to China. Russian companies were also allowed to export poultry to China.

![Figure 29 – Russia’s trade in agrifood products with China](https://www.rusagrogroup.ru/investors/news-events/press-releases/single-view/article/929/)

Before the U.S.-China had signed the Economic and Trade Agreement, the import restrictions by the U.S. were considered as a factor favoring Russian export expansion to China. The positive trend of raising agrifood export from Russia to China will be disrupted with the Phase One of Peace Deal. The following commodities are both part of top agrifood Russian exports to China and of China’s commitments under Peace Deal for increasing imports from the USA: sunflower-seed and oils, rapeseed, colza or mustard oil, soybeans and soybean oil, seafood, chocolate and other food preparations containing cocoa. Therefore, investments in the expansion

of those agricultural products should be reevaluated because of China’s commitments to buy more from the U.S.

While the U.S. issued several restrictions on Chinese investments in hi-tech industries, there is potential for closer Russian-Chinese cooperation in advanced technologies. In addition, several studies pointed out that Russia is integrating with China only, while strategy calls for the pivot to Asia. Russian exporters should look for opportunities niches in other countries, for example, to deliver agricultural products to Japan who is a large importer of crops, cereals to Vietnam. In addition, Russia should look for its place in the building of regional value chains.

So far, «safe» categories of Russian exports to China, not overlapping with Phase One commitments, are metals and chemicals (cooper, unwrought nickel, chemical wood pulp, soda or sulphate, iron ores and concentrates, mineral or chemical potassic fertilizers, precious-metal ores and concentrates, platinum, lead ores). Among them only China’s imports of copper and precious metals are increasing.

![Figure 30 – Structure of China’s imports from Russia (excluding mineral fuels(HS27))](image)

Source: ITC data

Managed trade provisions of the Phase One of the Peace Deal violate the WTO rules. The issue of the MFN regime application arises from the provision that grants
more favorable conditions for American exporters of goods, energy, services. It is under question whether for example within WTO consultation Russia may request from China expansion of trade based on the same calculation as the Peace Deal in the context of the development of bilateral trade relationships. Simplifying access to the financial market of China theoretically should favor third countries’ providers of these services, including the Russian ones. The Russian Federation’s Ministry of Economic Development expressed concern about the legitimacy of the U.S.-China Agreement concerning its mechanism: legal obligations by states (instead of non-state economic agents) to purchase goods and services will distort trade. According to the Head of the Department of Trade Negotiations, Ekaterina Mayorova, the Deal with such kind of provisions will be no less harmful than the trade war by itself, because it signals that two major economies neglect the rule of law and consequently it may lead to a global trade war.  

Russia has been developing its pivot to Asia with China as a key partner under the pressure of Western sanctions. According to the Chinese Administration of Customs Bilateral trade between Russia and China went up by 3.4% in 2019, to 110.8 bln. It was deemed that China under impact of the trade war with the U.S. and due to ambitions for the Belt and Road project would increase its trade turnover with Russia. According to the speech of the new Chinese Ambassador to Russia Zhang Hanhui, Russian-Chinese bilateral trade sets to increase to US$200 billion by 2024. However, Russia should accelerate the diversification of exports to upgrade Russia for more than a resource province or trade corridor for Chinese products to Europe. Given nowadays-economic reality, the future increase of bilateral trade and realization of infrastructure projects are uncertain.

Tariff's imposition on China’s export to the USA will increase its competition with Russian producers in base metals on overlapping markets.

In March of 2018, the USA imposed a tariff of 25% on steel imports. While China is the first largest steel producers who will carry out the burden of increased protectionism and trade remedies against it, the impact of tariffs on the Russian steel industry that ranked the 3rd largest exporter (after China and Japan) in 2018 is also negative. The U.S. imports of steel from Russia in 2019 halved by 43% in terms of volume.

Indirect impact on Russian steel producer passed through higher competition due to China is likely to redistribute its supply to alternative destinations. Russian’s export values of steel in 2018 increased to all of Russia’s top markets and also to 15th-ranked Vietnam (63%), and 19th-ranked Philippines (405%) 138. Among the top of market sales for Chinese steel are also Vietnam (11%) and the Philippines (7%), so Russian producers will face tougher competition in the market of those countries.

In 2017 China exported 66% of its total raw aluminum to Japan, 4.6% to Thailand, 3.6% to Vietnam and 3.7% to other Asia countries. The share of its total export to the USA is slightly more than 1%. Russia exported to the USA in 2017 more

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than 20% of its total aluminum export. The imposition of the tariff of 10% on aluminum by the USA forces Russian procures to increase export to other markets. China’s and Russia’s producers will face tougher competition in the market of Japan, where the share of Russian producers is 19% and Chinese is 6% less.

Contraction of the Chinese economic growth under the pressure of the trade war in the long-term may affect the energy sector of Russia through a decreasing demand and lower prices. The second channel is a reduction of Russian exports of energy once China pursues its commitment to purchase more from the U.S. Indirect costs of trade war pass to Russian steel and aluminum exporters that are likely to face tougher competition with Chinese suppliers in the Asian markets. China is interested in imports of agrifood from Russia, but a positive trend in agricultural trade may be disrupted with China’s commitments to buy more of those products from the U.S. Among safe categories for further export expansion to China are chemicals and metals. Russia needs to diversify its export structure to fill the untapped demand on Asian markets.
III Conclusion

There are different sorts of reasons from legal to personal factors that provoke the U.S. to start a trade war, but the main driver is the rise of China in the global arena. The U.S. has powerful arguments concerning China’s unfair trade practices but the tools chosen by Trump’s Administration to resolve trade tensions are not appropriate. The U.S. challenges the growing economic and technological potential of China via trade constrains. American Administration signals its readiness for long-term strategic competition with China. At the same time, the multilateral trading system is reaching its limits with the ongoing institutional crisis and the uncertainty of trade policies remains high. The trade war is a part of the broader imbalances resulted from hyperglobalization.

Though China’s absolute export losses in tarifed products are higher than the U.S., trade war negatively affected both economies, confirming the hypothesis of the lose-lose outcome of a trade war. As a result of the U.S. tariffs its imports from China of affected products decreased by 16% in 2019 in comparison with 2017. It is accounted for nearly 50 bln. U.S. dollars of China’s export losses or 10% of its total export to the U.S. or 2% of its global exports. As a result of China’s tariffs its import from the U.S. of affected products went down by 26% in 2019, it comprised nearly 34 bln. U.S. dollars export losses or about 22% of its total export to China or 2% of its global exports. The trade war disrupts supply chains making it less profitable to manufacture in China for selling to the U.S. because of higher tariffs. Investors who follow this business model including the U.S.’ MNCs should diversify their production facilities out of China.

In 2019 China managed to maintain 84% of its total export to the U.S. Most affected with the tariffs sectors of the Chinese economy are machinery and chemicals – reduction by 29%, manufactured miscellaneous (furniture, toys, garment) –
reduction by 21%. In 2019 the USA maintained 80% of its total exports to China. Among the most affected with the trade war sectors of the American economy are mineral products – 60% reduction, vehicles – 16% reduction, machinery and electrical equipment – 15% reduction, base metals – 24.6% of reduction, agri-food exports – 6% of reduction. The U.S. imports of products from China subject to tariffs during the trade war declined by 32% in comparison with those not affected with additional tariffs. While China is the biggest consumer of LNG and crude oil, China is less dependent on imports of those products from the U.S.

Harm to the U.S. economy is passed through higher consumer prices and increased costs of intermediate inputs. China suffers from the trade war due to higher export orientation of economy and threat of relocation of foreign enterprisers to alternative locations. The trade war has a negative impact on world trade and investments. Despite the overall negative impacts of the trade war, third countries such as Mexico, Vietnam, Taiwan gained through increased exports of manufactured products to the U.S. as a result of the substitution of Chinese products. The effect of substitution of high-assembled American products in Chinese imports is less obvious. Argentina and Uruguay gained through increased exports of agricultural products to China (mainly soybeans). The Chinese import reduction from all major suppliers signals economic contraction that may lead to a downward spiral for the world economy.

The Economic and Trade Agreement between the U.S. and China signed at the beginning of 2020 indicates the de-escalation of the trade war, but structural reforms demanded by the U.S. are not coming in China. Under the Peace Deal China is committed to increasing imports from the U.S. by 200 bln. in two years. It indicates a shift towards managed trade. The agreement may redistribute trade in the favor of Washington in the energy, agricultural and manufacturing sectors and services. Non-American suppliers to China should manage the risks as the U.S. may crowd out their
shares for products subjected to the Agreement. The legitimacy of trade expansion has to be litigated by third countries, but given the WTO crisis, there is a lack of enforceable legal mechanisms to preclude trade distortions. Moreover, the spillover effect of protectionism and high exposure of countries to external risks are leading to retreat from multilateralism.

Slowing down of the Chinese economy under pressure of the trade war will affect the energy sector of Russia through a decreasing demand and lower prices. The second channel is a reduction of Russian exports of energy once China pursues its commitment to purchase more from the U.S. Indirect costs of trade war pass to Russian steel and aluminum exporters that are likely to face tougher competition with Chinese suppliers in the Asian markets. China is interested in imports of agrifood from Russia, but a positive trend in agricultural trade may be disrupted with China’s commitments to buy more of those products from the U.S. Russia needs to diversify its export structure and integrate into regional value chains. Because of the U.S. investment restriction policy on business with China, there is a perspective niche in the high-tech sector.
## Annex 1

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>List 1 (July 2018): + 25% to import duties</td>
<td>819</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40 Rubber and articles thereof</td>
<td>2</td>
<td>3,00%</td>
<td>-27,84%</td>
</tr>
<tr>
<td>84 Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof</td>
<td>417</td>
<td>1,00%</td>
<td>-5,61%</td>
</tr>
<tr>
<td>85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles</td>
<td>187</td>
<td>1,00%</td>
<td>-0,70%</td>
</tr>
<tr>
<td>86 Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electromechanical) traffic signalling equipment of all kinds</td>
<td>17</td>
<td>3,00%</td>
<td>-45,16%</td>
</tr>
<tr>
<td>87 Vehicles other than railway or tramway rolling stock, and parts and accessories thereof</td>
<td>41</td>
<td>3,00%</td>
<td>-5,39%</td>
</tr>
<tr>
<td>88 Aircraft, spacecraft, and parts thereof</td>
<td>15</td>
<td>0,00%</td>
<td>-7,36%</td>
</tr>
<tr>
<td>89 Ships, boats and floating structures</td>
<td>10</td>
<td>0,00%</td>
<td>67,35%</td>
</tr>
<tr>
<td>90 Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof</td>
<td>129</td>
<td>1,00%</td>
<td>1,11%</td>
</tr>
<tr>
<td>List 2 (August 2018): + 25% to import duties</td>
<td>279</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>27 Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes</td>
<td>3</td>
<td>0,00%</td>
<td>-29,11%</td>
</tr>
<tr>
<td>34 Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, ‘dental waxes’ and dental preparations with a basis of plaster</td>
<td>Number of included 8-digit headings</td>
<td>US average import tariff applicable to China</td>
<td>Changes in China’s exports to US (2019/2017)</td>
</tr>
<tr>
<td>---</td>
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<td>---</td>
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</tr>
<tr>
<td>39 Plastics and articles thereof</td>
<td>146</td>
<td>5,00%</td>
<td>11,80%</td>
</tr>
<tr>
<td>73 Articles of iron or steel</td>
<td>6</td>
<td>1,00%</td>
<td>-2,23%</td>
</tr>
<tr>
<td>84 Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof</td>
<td>31</td>
<td>1,00%</td>
<td>-5,61%</td>
</tr>
<tr>
<td>85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles</td>
<td>36</td>
<td>1,00%</td>
<td>-0,70%</td>
</tr>
<tr>
<td>86 Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electromechanical) traffic signalling equipment of all kinds</td>
<td>13</td>
<td>3,00%</td>
<td>-45,16%</td>
</tr>
<tr>
<td>87 Vehicles other than railway or tramway rolling stock, and parts and accessories thereof</td>
<td>19</td>
<td>3,00%</td>
<td>-5,39%</td>
</tr>
<tr>
<td>89 Ships, boats and floating structures</td>
<td>1</td>
<td>0,00%</td>
<td>67,35%</td>
</tr>
<tr>
<td>90 Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof</td>
<td>16</td>
<td>0,00%</td>
<td>1,11%</td>
</tr>
<tr>
<td>List 3 (May 2019): + 15% to import duties</td>
<td>5773</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>02 Meat and edible meat offal</td>
<td>7</td>
<td>5,00%</td>
<td>-28,05%</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>---------------------------------------------</td>
<td>---------------------------------------------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>03 Fish and crustaceans, molluscs and other aquatic invertebrates</td>
<td>225</td>
<td>0,00%</td>
<td>-21,08%</td>
</tr>
<tr>
<td>04 Dairy produce; birds’ eggs; natural honey; edible products of animal origin, not elsewhere specified or included</td>
<td>20</td>
<td>17,00%</td>
<td>-14,95%</td>
</tr>
<tr>
<td>07 Edible vegetables and certain roots and tubers</td>
<td>143</td>
<td>5,00%</td>
<td>-35,47%</td>
</tr>
<tr>
<td>08 Edible fruit and nuts; peel of citrus fruit or melons</td>
<td>70</td>
<td>2,00%</td>
<td>9,85%</td>
</tr>
<tr>
<td>10 Cereals</td>
<td>22</td>
<td>1,00%</td>
<td>564,04%</td>
</tr>
<tr>
<td>11 Products of the milling industry; malt; starches; inulin; wheat gluten</td>
<td>38</td>
<td>2,00%</td>
<td>-13,05%</td>
</tr>
<tr>
<td>12 Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder</td>
<td>48</td>
<td>1,00%</td>
<td>-22,03%</td>
</tr>
<tr>
<td>14 Vegetable plaiting materials; vegetable products not elsewhere specified or included</td>
<td>8</td>
<td>1,00%</td>
<td>-7,13%</td>
</tr>
<tr>
<td>15 Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes</td>
<td>11</td>
<td>3,00%</td>
<td>3,39%</td>
</tr>
<tr>
<td>16 Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates</td>
<td>77</td>
<td>5,00%</td>
<td>-23,13%</td>
</tr>
<tr>
<td>20 Preparations of vegetables, fruit, nuts or other parts of plants</td>
<td>74</td>
<td>8,00%</td>
<td>-27,89%</td>
</tr>
<tr>
<td>22 Beverages, spirits and vinegar</td>
<td>19</td>
<td>1,00%</td>
<td>8,63%</td>
</tr>
<tr>
<td>23 Residues and waste from the food industries; prepared animal fodder</td>
<td>21</td>
<td>3,00%</td>
<td>-23,46%</td>
</tr>
<tr>
<td>24 Tobacco and manufactured tobacco substitutes</td>
<td>35</td>
<td>30,00%</td>
<td>-3,46%</td>
</tr>
<tr>
<td>25 Salt; sulphur; earths and stone; plastering materials, lime and cement</td>
<td>43</td>
<td>0,00%</td>
<td>0,11%</td>
</tr>
<tr>
<td>26 Ores, slag and ash</td>
<td>16</td>
<td>0,00%</td>
<td>-25,22%</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>---------------------------------------------</td>
<td>---------------------------------------------</td>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>27 Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes</td>
<td>44</td>
<td>0,00%</td>
<td>-29,11%</td>
</tr>
<tr>
<td>28 Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes</td>
<td>67</td>
<td>1,00%</td>
<td>-17,31%</td>
</tr>
<tr>
<td>29 Organic chemicals</td>
<td>458</td>
<td>4,00%</td>
<td>-0,34%</td>
</tr>
<tr>
<td>30 Pharmaceutical products</td>
<td>2</td>
<td>0,00%</td>
<td>45,18%</td>
</tr>
<tr>
<td>31 Fertilizers</td>
<td>10</td>
<td>0,00%</td>
<td>-90,36%</td>
</tr>
<tr>
<td>32 Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks</td>
<td>62</td>
<td>4,00%</td>
<td>-35,70%</td>
</tr>
<tr>
<td>33 Essential oils and resinoids; perfumery, cosmetic or toilet preparations</td>
<td>15</td>
<td>1,00%</td>
<td>-7,05%</td>
</tr>
<tr>
<td>34 Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, ‘dental waxes’ and dental preparations with a basis of plaster</td>
<td>34</td>
<td>2,00%</td>
<td>15,17%</td>
</tr>
<tr>
<td>34-38: Other chemicals</td>
<td>137</td>
<td>3,00%</td>
<td>-1,42%</td>
</tr>
<tr>
<td>39 Plastics and articles thereof</td>
<td>37</td>
<td>5,00%</td>
<td>11,80%</td>
</tr>
<tr>
<td>40 Rubber and articles thereof</td>
<td>114</td>
<td>2,00%</td>
<td>-27,84%</td>
</tr>
<tr>
<td>41-43 Furs, skins and leather</td>
<td>153</td>
<td>5,00%</td>
<td>-21,02%</td>
</tr>
<tr>
<td>44 Wood and articles of wood; wood charcoal</td>
<td>120</td>
<td>1,00%</td>
<td>-19,81%</td>
</tr>
<tr>
<td>48 Paper and paperboard; articles of paper pulp, of paper or of paperboard</td>
<td>172</td>
<td>0,00%</td>
<td>7,02%</td>
</tr>
<tr>
<td>45-47 Other paper and paper products</td>
<td>31</td>
<td>5,00%</td>
<td>10,75%</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>---------------------------------------------</td>
<td>-----------------------------------------------</td>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>50-60, 65 Clothes and textiles</td>
<td>780</td>
<td>8.00%</td>
<td>-13.09%</td>
</tr>
<tr>
<td>68-70 Constructions materials, ceramics, glass</td>
<td>140</td>
<td>5.00%</td>
<td>-3.03%</td>
</tr>
<tr>
<td>71 Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin</td>
<td>42</td>
<td>1.00%</td>
<td>-35.91%</td>
</tr>
<tr>
<td>72-73 Iron and steel, articles of it</td>
<td>123</td>
<td>1.00%</td>
<td>-2.93%</td>
</tr>
<tr>
<td>74-83 Non-ferrous metals (cooper, nickel. Aluminium, etc.) and products from it</td>
<td>170</td>
<td>2.00%</td>
<td>-8.55%</td>
</tr>
<tr>
<td>84 Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof</td>
<td>125</td>
<td>1.00%</td>
<td>-5.61%</td>
</tr>
<tr>
<td>85 Electrical machinery and equipment and parts thereof</td>
<td>142</td>
<td>1.00%</td>
<td>-0.70%</td>
</tr>
<tr>
<td>87 Vehicles other than railway or tramway rolling stock, and parts and accessories thereof</td>
<td>98</td>
<td>3.00%</td>
<td>-5.39%</td>
</tr>
<tr>
<td>90 Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof</td>
<td>45</td>
<td>1.00%</td>
<td>1.11%</td>
</tr>
<tr>
<td>94 Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings</td>
<td>49</td>
<td>1.00%</td>
<td>-5.44%</td>
</tr>
<tr>
<td>List 4 A (September 2019): + 7.5 to import duties</td>
<td>3226</td>
<td></td>
<td></td>
</tr>
<tr>
<td>01 Live animals</td>
<td>37</td>
<td>0.00%</td>
<td></td>
</tr>
<tr>
<td>02 Meat and edible meat offal</td>
<td>104</td>
<td>5.00%</td>
<td></td>
</tr>
<tr>
<td>04 Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included</td>
<td>238</td>
<td>17.00%</td>
<td></td>
</tr>
<tr>
<td>05 Products of animal origin, not elsewhere specified or included</td>
<td>6</td>
<td>0.00%</td>
<td></td>
</tr>
<tr>
<td>------------------------------------</td>
<td>--------------------------------------------</td>
<td>---------------------------------------------</td>
<td>---------------------------------------------------------</td>
</tr>
<tr>
<td>06 Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage</td>
<td>30</td>
<td>4,00%</td>
<td></td>
</tr>
<tr>
<td>07 Edible vegetables and certain roots and tubers</td>
<td>42</td>
<td>5,00%</td>
<td></td>
</tr>
<tr>
<td>08 Edible fruit and nuts; peel of citrus fruit or melons</td>
<td>39</td>
<td>2,00%</td>
<td></td>
</tr>
<tr>
<td>09 Coffee, tea, maté and spices</td>
<td>57</td>
<td>0,00%</td>
<td></td>
</tr>
<tr>
<td>10 Cereals</td>
<td>8</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>12 Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder</td>
<td>21</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>13 Lac; gums, resins and other vegetable saps and extracts</td>
<td>14</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>14 Vegetable plaiting materials; vegetable products not elsewhere specified or included</td>
<td>2</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>15 Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes</td>
<td>61</td>
<td>3,00%</td>
<td></td>
</tr>
<tr>
<td>16 Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates</td>
<td>26</td>
<td>5,00%</td>
<td></td>
</tr>
<tr>
<td>17 Sugars and sugar confectionery</td>
<td>65</td>
<td>13,00%</td>
<td></td>
</tr>
<tr>
<td>18 Cocoa and cocoa preparations</td>
<td>78</td>
<td>5,00%</td>
<td></td>
</tr>
<tr>
<td>19 Preparations of cereals, flour, starch or milk; pastrycooks' products</td>
<td>67</td>
<td>5,00%</td>
<td></td>
</tr>
<tr>
<td>20 Preparations of vegetables, fruit, nuts or other parts of plants</td>
<td>46</td>
<td>8,00%</td>
<td></td>
</tr>
<tr>
<td>21 Miscellaneous edible preparations</td>
<td>86</td>
<td>9,00%</td>
<td></td>
</tr>
<tr>
<td>22 Beverages, spirits and vinegar</td>
<td>55</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>23 Residues and waste from the food industries; prepared animal fodder</td>
<td>14</td>
<td>3,00%</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-------------------------------------------</td>
<td>---------------------------------------------</td>
<td>------------------------------------------------------</td>
</tr>
<tr>
<td>24 Tobacco and manufactured tobacco substitutes</td>
<td>11</td>
<td>30,00%</td>
<td></td>
</tr>
<tr>
<td>26 Ores, slag and ash</td>
<td>1</td>
<td>0,00%</td>
<td></td>
</tr>
<tr>
<td>27 Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes</td>
<td>12</td>
<td>0,00%</td>
<td></td>
</tr>
<tr>
<td>28 Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes</td>
<td>7</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>29 Organic chemicals</td>
<td>36</td>
<td>4,00%</td>
<td></td>
</tr>
<tr>
<td>32 Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks</td>
<td>2</td>
<td>4,00%</td>
<td></td>
</tr>
<tr>
<td>33 Essential oils and resinoids; perfumery, cosmetic or toilet preparations</td>
<td>16</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>34 Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, ‘dental waxes’ and dental preparations with a basis of plaster</td>
<td>2</td>
<td>2,00%</td>
<td></td>
</tr>
<tr>
<td>35-38: Other chemicals</td>
<td>40</td>
<td>3,00%</td>
<td></td>
</tr>
<tr>
<td>39 Plastics and articles thereof</td>
<td>21</td>
<td>5,00%</td>
<td></td>
</tr>
<tr>
<td>40 Rubber and articles thereof</td>
<td>10</td>
<td>2,00%</td>
<td></td>
</tr>
<tr>
<td>41-43 Furs, skins and leather</td>
<td>39</td>
<td>5,00%</td>
<td></td>
</tr>
<tr>
<td>44 Wood and articles of wood; wood charcoal</td>
<td>9</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>48 Paper and paperboard; articles of paper pulp, of paper or of paperboard</td>
<td>3</td>
<td>0,00%</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>---------------------------------------------</td>
<td>---------------------------------------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>49 Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plan</td>
<td>24</td>
<td>0,00%</td>
<td></td>
</tr>
<tr>
<td>50-63 Textiles and textile articles</td>
<td>652</td>
<td>7,00%</td>
<td></td>
</tr>
<tr>
<td>64-67 Footwear, headgear, umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair</td>
<td>103</td>
<td>6,00%</td>
<td></td>
</tr>
<tr>
<td>68-70 Constructions materials, ceramics, glass</td>
<td>67</td>
<td>5,00%</td>
<td></td>
</tr>
<tr>
<td>71 Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin</td>
<td>51</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>72-73 Iron and steel, articles of it</td>
<td>316</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>74-83 Non-ferrous metals (cooper, nickel, Aluminium, etc.) and products from it</td>
<td>79</td>
<td>2,00%</td>
<td></td>
</tr>
<tr>
<td>84 Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof</td>
<td>136</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>85 Electrical machinery and equipment and parts thereof</td>
<td>100</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>87 Vehicles other than railway or tramway rolling stock, and parts and accessories thereof</td>
<td>12</td>
<td>3,00%</td>
<td></td>
</tr>
<tr>
<td>88 Aircraft, spacecraft, and parts thereof</td>
<td>1</td>
<td>0,00%</td>
<td></td>
</tr>
<tr>
<td>89 Ships, boats and floating structures</td>
<td>2</td>
<td>0,00%</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>--------------------------------------------</td>
<td>---------------------------------------------</td>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>90-92 Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof</td>
<td>212</td>
<td>0,00%</td>
<td></td>
</tr>
<tr>
<td>93Arms and ammunition; parts and accessories thereof</td>
<td>32</td>
<td>1,00%</td>
<td></td>
</tr>
<tr>
<td>94 - 96 Miscellaneous manufactured articles</td>
<td>127</td>
<td>2,00%</td>
<td></td>
</tr>
<tr>
<td>97 Works of art, collectors' pieces and antiques</td>
<td>7</td>
<td>0,00%</td>
<td></td>
</tr>
</tbody>
</table>
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