

Trade Relations Between U.S. and China

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TRADE RELATIONS BETWEEN U.S. AND CHINA

Over the past three decades, the economic ties between China and the U.S. expanded substantially. The total trade value between these countries rose from \$2 billion in 1979 to \$592 billion in 2014. According to the U.S., China is its biggest source of imports, the second-largest trade partner, and the third-largest export market. Market for the U.S. firms is provided by China, through direct and indirect exports of the U.S. to China and the investment firms of the U.S. trading in China. These countries have stayed globally competitive since many of the U.S. firms share in the Chinese market (Morrison, 2015). For example, general motors Company from the U.S. has invested heavily in China and sells more cars in China compared to the sales made in the U.S. Therefore, the trade relations between these two countries have paved way for benefits though with some few challenges which will be analyzed in this paper.

The trade associations between the U.S. and China have been helpful to both countries. The most recent developments for the two countries affirm this. Various developments have taken place since the beginning of 2015. On March 2015, the president of the U.S. proposed an anti-terror law to the Chinese that required the high technology companies to hand over encryption keys for surveillance access. The continued trade relations have depicted that low-cost goods are imported by the U.S. from China. This situation greatly benefits the consumers from the U.S.

In addition, China the U.S. is China's destination for the final assembly of its products. In the United States, the Chinese-made inputs for production have lowered the general costs of U.S. various products. As a result of this, China has become the largest foreign holder of the treasury securities with an estimated figure of \$1.24 trillion of the U.S. since December 2014. The interest rates of the U.S. government debt have remained low due to China's purchases (Rauch & Trindade, 2002).

TRADE DEVELOPMENT BETWEEN U.S. AND CHINA

The trade between the U.S. and China rose significantly following the establishment of diplomatic ties between them in 1979 (Robin & Reidenbach, 1989). During this period, a bilateral trade agreement was signed by both countries. Ever since this period, China has

become the fastest-growing export market for the U.S. As for China, the U.S market is important and its significance is expected to rise in the coming years. The Chinese marketplace is also essential to the U.S, a condition that has led to the growth of China's private consumption and living standards. While the two countries engage in the trade, real and huge benefits have been experienced by the U.S. China also enjoys some significant benefits from the trade as well. U.S investors account for over \$62.2 billion in China while more than 58,000 projects are also held by the Americans in China. These relations have produced great developments for China. In 2008, China had \$8 billion profits which it gained from the trade relation (Morrison & Labonte, 2008).

U.S.-CHINA TRADE DEFICIT

Among the factors affecting these trade relations is the trade deficit between the U.S and China. It rose from \$10 billion in 1990 to \$342 billion in 2012. The trade deficit between the U.S and China has risen for the past several years. The deficit is significantly larger than any other trading groups and partners of America. Various analysts have described the trade deficit is as a result of imbalances that damage the economy of the U.S. The trade relationship is also said to be unfair. Others argue that the trade deficit reflects the global supply chains. In these chains, China is the final point of the export-oriented assembly. The U.S trade deficit in China would be reduced with the establishment of bilateral trade measurements in accordance with the value added which occurs in each country before exports.

In 2014, the U.S merchandise exports to China were \$124.0 billion compared with the lower levels of those in 2013. The significant rise made China the third-largest merchandise export of the U.S after Mexico and Canada. The total U.S exports that went to China rose to 9.1% in 2014 from 2.1% in 2000. The merchandise U.S exports to China that caught the top five positions were motor vehicles, aircraft and parts, oilseeds and grains, semiconductors, waste and scrap, among electronic components. The U.S exports to China increased by 295%, which was the fastest growth rate to have been witnessed among its top 10 export markets. On the other hand, China became the second-largest agricultural market of the U.S in 2014. In this, the exports of the U.S have found a stable market in the export services of China (Morrison, 2015). In 2014, these exports totaled to \$41.5 billion, making China a stable market for the services from the U.S.

With the existence of the trade deficit between these two countries, many trade analysts have continued to argue that China could prove to be a more significant market for the U.S in the near future. Being one of the world's fastest growing economies, China's growth rate is likely to increase if the economic reforms will be provided. China aims at upgrading its industries, modernizing its infrastructure, and improving the living standards of its rural areas; hence generating substantial demand for the foreign services and goods. The purchasing power of the Chinese citizens has been improved substantially. This aspect has been evident in the urban areas, especially along the east coast of China. China has become a potentially huge market due to its large foreign exchange reserves and its population of 1.37 billion.

A report by the McKinsey & company indicated that China is likely to have 630 million middle class households by 2022. The private consumption of China is much lower than that of the U.S, even though the rate of consumption is rising rapidly. From 2002 to 2013, the annual average rate of consumption was 10.3% while the U.S had 2.5%. Efforts of the Chinese government to increase domestic spending have been initiated in order to reduce the trade deficit between the two countries. This will also lessen China's dependence on the exports of other countries. It will also enable it to become its own contributor of economic growth. Large-scale spending levels of the government of China can be reduced by its attempts of developing and modernizing its key industries, boosting the social safety net, reducing pollution, modernizing and expanding its infrastructure, and raising incomes in the rural areas of the country. This means that the current trade deficit is likely to end if China makes the above corrections on the highlighted areas (Morrison, 2015).

CHINA'S AND U.S CONTRIBUTION IN TRADE

China is the world's largest mobile network and can use this opportunity to become one of the fastest growing markets in the world. The country has 1.29 billion mobile phone subscribers who are likely to predict increased revenues in the coming years. This is in attempts to stabilize the company's products. The American Boeing company, also operating in China, is likely to extent its boundaries to commercial airlines outside the U.S the more. Before 2008, the U.S was the largest Internet user. After 2008, China replaced the U.S as the world's largest Internet user. Towards the end of 2013, China had an estimate of 618 million users compared with the 262 million users in the U.S during that time. Even though these figures depict China's potential in enhancing its economy, the U.S has a population percentage of 82 Internet users while China has 45%.

Some of the American states have signed contracts with Chinese firms in order to have their products manufactured in China but shipped to the U.S. In this, the value-added that occurs is relatively

small compared with the final cost of the product. Therefore, these U.S firms benefit a lot from the trade. A research study by the University of California investigated the production of Apple 30 Gigabyte video iPod. This invention was prepared in China by a Taiwanese company with some parts that were produced in Asia. The study depicted that the Chinese workers who assembled the products would receive only \$4 or 2.8% while the rest would go to the U.S firms. The study also indicated that Apple earned not less than \$80 on each product, a condition that makes it the largest beneficiary of the trade relations between the two countries. Through the sale of these products, Apple has become profitable and competitive through innovation in the engineering and development of iPod. This has enabled the Apple Company to source its largest portion of production on the countries with low costs of production such as China. This iPod example means that the global supply changes have made it difficult to interpret the trade data of the U.S. The data analyzes the source of the products but does not underline the beneficiaries of the trade.

The U.S has investment ties with China. There is a growing large role held through investment in the commercial ties between these countries. China has invested greatly in the U.S securities, non-bond investments, and foreign direct investment (FDI). China's investment in the U.S comprises of a significant share of China's investment. China also holds a significant share of the U.S securities. The bulk of U.S investment in China is constituted by FDI. The U.S investments cover securities that are held by other countries. The Treasury Department defines the U.S treasury holdings as securities that are held in foreign countries by foreign residents. The foreign bodies include institutions and banks except the cases where the owners have direct investment relationships with the U.S. The U.S statutes define FDI as the control or ownership, indirectly or directly, by a foreign resident of 10% that is incorporated into an equivalent interest of a U.S branch or enterprise. FDI data is reported by the Bureau of Economic Analysis (BEA) to flow to and from the United States. In this, a number of the Chinese investments are not reflected in the BEA data; hence fail to meet the U.S definition of FDI.

TRADE OPERATIONS BETWEEN BOTH COUNTRIES

The trade relations of the U.S and China are reflected by the U.S private and public securities which are held by China (Hufbauer, Wong & Sheth, 2006). These include; U.S government agency, treasury securities, and equities such as stocks. Majority of the U.S securities are held by China and largely attribute to the policy of exchange rates. The markets of these exchange rates limit the U.S currency appreciation. The Chinese exporters who are often paid in U.S dollars are required by their government to turn their dollars into the Chinese currency. It is due to this condition that the

Chinese government has accumulated lots of dollars. The Chinese do not hold on to the U.S dollars since they do not have significant benefits; hence the government has chosen to invest the dollars into the treasury securities of the U.S. As a result of these relations, China's investment in the private and public U.S securities has increased to trillion amounts since 2013.

Various trade analysts have depicted that China has held large holdings in the U.S debt securities. This issue gives the Chinese government leverage over the foreign policy of the U.S which involves the trade policy (Mann, 1999). The large share of the U.S debt securities which are held by China could be sold by the Chinese government, which is termed as a threat. This could result from a policy dispute; hence damaging the economy of the U.S. Additionally, the U.S debts held by China gives it a little practical leverage against the U.S. Both the Chinese and U.S economies would be killed by China's attempt to sell the debt securities of the U.S that it holds. The economic dependency and the growing stability of the U.S would also be destroyed if the debt securities are sold (Saaty & Cho, 2001).

China is the main controller of the U.S treasury securities. Its holdings are equal to 6.8% of the total U.S public debt since 2014. Therefore, a move by the Chinese government to sell the U.S debt securities would depreciate the global currencies of the U.S dollar (Guo, 2004). This would also value the remaining holdings of the dollar assets of the U.S. Analysts have also held that China continues to peg the RMB to the American dollar. Through this, China will have little choice apart from purchasing the U.S dollar assets in efforts to uphold it.

Foreign direct investment (FDI) continues to stream between China and the U.S. The level of FDI that flows between them is relatively small compared with the volume of trade between them. Trade analysts contend that the commercial ties of these countries could be increased with an expansion in the bilateral FDI flow. The main U.S federal agency that controls and collects FDI data flows to and from the U.S is the BEA. A historical-cost basis is used to show the stock of the U.S FDI that is held in China. The 2013 results depicted that the historical-cost analysis was \$61.5. The annual FDI flow between the two countries has changed significantly on an annual basis. In 2008, China realized a peak of \$16 billion in FDI. In other times, the FDI flows have a negative value indicating the presence of fund outflow by investors from the U.S in China to the U.S (Cline & Kim, 2010).

In 2013, the annual FDI flows in China rose to \$2.4 billion from \$500 million in 2009. The majority-owned affiliates of the U.S employed 1.6 million workers in China as estimated by BEA. About 699,000 workers were in the manufacturing industries in 2012. On a historical-cost analysis, the Chinese FDI stock in the U.S

was \$8.1 billion throughout 2013 according to BEA. However, analysts have depicted that the data from BEA does not capture the entire investments on China's FDI in the U.S. The data from BEA is different from that of the Rhodium Group which is a private advisory and consultancy Research Company showing that the annual Chinese FDI flows in 2008 rose from \$1.7 billion to \$14 billion in 2013 (Morrison, 2015)

Apart from the differences in the research by diverse research bodies, the official FDI data of China is divergent from that of the United States (Branstetter & Foley, 2010). This is due to the difference in the large methodologies that are used. The Chinese cumulative data of U.S FDI was \$73.5 billion in 2013 while the flow of FDI between the two countries was \$3.4 billion in the same year. After much consideration of the above report, it was noted that the U.S FDI flows were lower compared with the U.S FDI flows (Morrison, 2015).

TRADE CHALLENGES

Due to the rise in disputes on cyber security, the Chinese government is afraid that this could be a major problem threatening to be a huge hindrance in the bilateral relationship between them and the United States. It is due to this issue that the Chinese government is concerned with measuring the U.S government's level of commitment to it. Significant pressure that will enable them to destroy the long national struggle will not be offered as this will accord them technology access as used by the western countries.

Cyberspace has been formed by their economic espionage and has thereafter become a segment of the usual business act that led to the protection of intellectual property as a result of the loops that developed into deeper problems. China's pervasive nature is reflected in its efforts to offer to take years of continuous effort in order to guarantee that the entire subject is well managed. However, an immediate solution is not possible. In order to avoid further destruction, there has to be proof of the progress in order to build the existing relation between the two countries, thereby reducing the international affairs' source of trouble (Sachs et al., 1994).

Cyber security has potential harm to the U.S and China as well. There has been a lot of exaggeration in a variety of discussions that relate to cyber security. However, its source usually leads to uncertainty in the intent of exact capabilities, assessment, and effect. Pointless policy recommendations are brought about by such uncertainty. Stealing intellectual property is the worry expressed by China, where their vulnerability to the theft is increased by the weak nature of the American defenses. China has an upper hand in terms of economic espionage activities. A clear cut benefit is not one of the effects to China. It is difficult to conclude whether they are affected by the assessment of this theft (Du & Tao, 2008).

Intangibles that are a formation of the mentality are ruled by the term “intellectual property”. The protection and security to trademarks is offered by intellectual property rights. It also recognizes and differentiates the origin of the goods. Domain labels, trade secrets, and designs, as well as brand names are usually in line with the protection of the trademarks. The authors of original pieces such as literary, musicals, or other performances and works are provided with protection for copyrights in the meantime. The initiators and inventors who discover and formulate non-obvious and new inventions are accorded statutory rights that are in form of patents. According to Liu, Burrige and Sinclair (2002), exclusive rights to use, manufacture and to develop the inventions are protected by the patents.

Intellectual property rights such as trademarks were used by China during the course of the trade relations. This is because China has benefited from the reputation that had been established by the United States, regardless of the manner in which it has tried to locate its offices in the urban locations that are close to the U.S Company’s headquarters. Therefore, China has benefited from the U.S since the time the community popularized itself with FDI investments which took a period of six months. It was after this period that China enjoyed access to sales, networks and databases on top of the marketing expertise which led to low-cost and quick renovation. The intellectual property rights that were in the form of trademarks ought to remain to the U.S since China is working under the brand names of the U.S (Ma, Van Assche & Hong, 2009).

Research indicates that China is the second world’s leading manufacturer of automotive products. Nevertheless, the system is bound by distribution challenges since the automotive parts require ships for transportation. Even under the best of circumstances, this art of transporting heavy materials is challenging. Tsunamis external shocks have led to difficulties in the distribution segment. Many of the producers are affected by fear of supplying their materials to the global network. In addition, the container ships, which transport the materials, are likely to take 30 or more days before reaching their destination. This means that the automakers will face problems in the course of the month when they run out of the parts (Liu, Wang & Wei, 2001).

Of much concern are the U.S manufacturers. The dominant operations of these engineers have enabled the producers to benefit from their strategies. The lean operations or the Just-In-Time (JIT) inventory control are the major approaches that have helped to shed light on the inherent risks. This is because fewer inventories are needed when the JIT systems are functioning well. In addition, increasing inventory is wasteful (Gadbaw, 1988). Alternatively, significant economies of scale can result from the reduction of the number of suppliers in each country.

The dealer is very essential in the supply chain of U.S and China.

The dealer should be able to produce the materials being sold. Otherwise, the system would breakdown in case of an emergency. For example, if fire breaks out in a large scale supplier of valves, there will be a quick shut down of valves in the entire world. This also means that cars and other automotive will not be produced for some time. In order to evade these challenges, the dealers and suppliers from both the U.S and China should rethink risk mitigation strategies in their trade relations. This will enable them to deal with disruptions of their supply chains that are large scale.

Every product is aimed at reaching the hands of the consumer as noted in the above-mentioned context. The trade relations of China and U.S ensure that their products are beneficial after reaching the markets of the world. Since no other countries engage in this trade, their products aim at marking the end of the chain. When the customer takes part in the supply chain, the process is known as customer integration. An effective flow of supplies is achieved when collaboration and interaction is ensured by both the organization and its customers. The customer requirements and needs ought to get quick responses from the organization through an understanding of the culture, market, organization and the nature of the products that are required by the consumers. In short, the above knowledge of the trade relations illustrates the entire chain of trade, in that, every component has some tasks which are necessary for the chain to be effective. Beginning with the raw material manufacturer, it is notable that every activity must commence with the raw materials that help to form the desired parts. The spare parts are then formed after which they are supplied to the dealer and the final consumer (Luo, 2000).

CONCLUSION

Definitely, the trade relations between China and the U.S have resulted in a number of benefits. The U.S has embraced Chinese companies that are a major boost to its economy. For example, Wal-Mart, a company in the U.S, is the largest producer of retail goods, all of which trade from different countries, China being one of them. In this case, the companies meet the market test by producing essential and a wide range of consumer goods at very cheap prices. The lower prices have increased the standards of living for many American people (Bown & McCulloch, 2005).

The Chinese companies in the U.S also employ thousands of Americans, providing opportunities to the U.S citizens. Productivity in retail trade has been increased by these countries. Workers sell more goods to consumers as time goes by. For example, the labor productivity rose for close to 8% between 1987 and 2004 in the U.S. This productivity advancement makes retail trade extraordinary unusual. Chinese companies create consumer surplus. This indicates that individuals can get quality products for less money. Some products have flexible prices. There is a chance of getting a

product at \$1 dollar less than it was during the previous shopping.

The trade relations between the U.S and China favor the poor people. Products that are produced as a result of the trade links are taxed less. Therefore, the poor people can afford a good number of the country's' products. Many jobs are created through these trade relations. Compared with the past decade, there are more Chinese people working in the U.S today and the vice versa. Therefore, the trade relation has led to the current American and Chinese success. This has been attained throughout the formation of jobs and the provision of low priced- products. Being a great innovator, China is one of the reasons for the growth of the U.S economy today (Bin, 2006).

The two countries have always sought for balanced trade. In this, the exports from the U.S to China should be vigorously expanded. Sustained development could only result in balanced U.S.-China trade. A win-win situation, as well as mutual benefits could also result from the trade links seen between these two countries. These goals could be achieved as a result of exports restrictions by China to the U.S. Exports to China from the U.S should be encouraged to reduce the imbalances. The U.S should also implement new strategies in efforts to boost exports. In doing so, the U.S will be scraping the cold war mentality and expand the competitiveness of the Chinese products (Friedberg, 2005).

The trade relations between the U.S and China are likely to go into depths. Trade and economic issues should not be politicized in order to oppose trade protectionism and play the full economic and strategic dialogue on trade and commerce. Trade and economic interests should also be expanded in order to recognize the market-economy status of the two countries. Interests in trade and economic cooperation should also be converged. Investment and trade facilitation needs to be enhanced in order to boost the policies of trade between the two countries. The multilateral and bilateral trading systems need to be pushed in order to promote a substantive growth.

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