In the spring of 2018, the United States government initiated a policy of limiting the trade presence of Chinese companies on its national market. It included revision of tariff rates for traded products, changes of investment regime. China’s response has triggered a series of consistent steps by each side of the conflict, which will have a significant impact on bilateral economic relations in the future. The article is devoted to the assessment of the positions of the PRC and the US in the dispute, their tactical tasks and strategic goals, the arsenal of tools for symmetric response and asymmetric impact over the situation. In the process of analysis, the weakness of China’s position in the trade war is demonstrated, the possibility of reducing its foreign exchange reserves and devaluation of the national currency is estimated, the consequences of such steps are forecasted. The author identifies the beneficiaries and victims of the trade conflict between the PRC and the United States. Among the developed countries, the European Union members can benefit, and Japan and South Korea may suffer losses. Developing countries will be in the camp of the losers from the conflict. The countries of Southeast Asia are particularly affected. The risks to the stability of the Ukrainian economy from commercial warfare are assessed as moderate, opportunities for increasing its trading potential and the threats for the foreign investment attraction are identified.

**Keywords:** trade war, trade conflict, China, PRC, USA, economic strategy, international relations

The trade war, launched by the administration of US President Donald Trump against the People’s Republic of China in the spring of 2018, is gaining momentum. It takes place between the two countries with the largest bilateral trade relations in the world for the global economic, technological and political leadership. In 2017, the United States imported more than $ 505 billion worth of goods from China, accounting for about 4% of its GDP. Instead, exports of US goods to China in 2017 amounted $ 130 billion, which underlines the asymmetry of their trade position.

The United States has a surplus in services trade with China, which in 2017 reached a record $ 38.5 billion. The US has sold tourist, educational, financial services and intellectual property rights to the PRC for $ 56 billion, importing services for $ 17.6, mostly of transport origin.
The largest stimulus for the United States in its trade relations with China is the long standing shortage of trade in advanced technological products. According to the results of the first half of 2018 it amounted $ 64 billion [U.S.-China Economic and Security Review Commission, 2018b]. The largest contribution to the deficit is generated by the information and communication sector, which imports from China has drawn up to $ 73 billion, and only $ 2 billion was exported. The United States sells nearly $ 7 billion to China of its aerospace products, but it does not drastically reduce imbalances.

The countries have placed on each other the large volumes of capital: the US has accumulated in the PRC $ 257 billion of direct investment, while China in the US $ 140 billion. In 2017, China invested in the United States about $ 30 billion, trying to expand access to American markets and technologies. Another $ 8 billion Chinese investments were blocked by the US Foreign Investment Committee (CFIUS) in areas important for national security and defense (semiconductors, “new critical technologies”), and protection of citizens personal data of. $ 14 billion from the US was invested into China with a focus on consumption related business.

The goal of the article is to analyze the reasons for the tariffs introduction in bilateral trade from the United States side and China’s position, to assess the economic strength of the parties involved to the conflict, to explore the possibilities for asymmetric tactics in response to the rival’s actions, to predict the consequences of the conflict in the short and medium run, to characterize the challenges and threats for the Ukrainian economy.

Representatives of Donald Trump’s administration, announcing radical packages of anti-Chinese measures, appealed to the numerous actions, policies and practices of the Chinese Government related to the forced transfer of technology, intellectual property and innovation theft in China. In particular, a United States Sales Representative Office, the USTR found that China [USTR 2018]

§ imposes the requirements on US business to create joint companies with Chinese and forces the transfer of intellectual property or technologies in exchange for market access;
§ applies discriminatory licensing restrictions on US business;
§ coordinates and supports targeted investment and acquisition of US companies and assets to ensure full transfer of technology;
§ conducts and supports cyber-interventions in US commercial computer networks to gain unauthorized access to commercially useful business information.

At the meeting on the intensification of bilateral trade relations in May 2018, the US delegation demanded from China [Curran, Zhai 2018]: to reduce the deficit by buying airplanes, cars, agricultural goods and LNG (optional); protect American intellectual property; terminate the investment control practices; reduce the tariff and non-tariff barriers in two years to the American level; facilitate access to markets of services and agricultural products; assess the level of meeting the requirements progress quarterly.

Geo-economic purpose of the Trump administration advisers in the trade war is [Ward 2018]

1) to eliminate China from the global supply chain of goods that make up a significant part of American high-tech imports (up to 51 %) – mainly consumer goods designed by American companies, ordered by Japanese, Korean or Taiwanese firms that on the final stages are assembled in China and transported to the United States;
2) to undermine the trust of multinationals to China as the safe place for production and increase investment risks, which is ensured not only by the complication of trade conditions, but also by the introduction of sanctions against the vulnerable assets of the rival.

America’s actions are seen as intended to undermine the revival of China, proclaimed by Xi Jinping’s long-term policy until 2049. One of the important initiatives in this direction, the “Made in China 2025” program, is to turn the country into a high-tech manufacturer that is dominant in advanced industries: robotics, advanced information technology, aviation and environmental electric vehicles.

During the May attempt to resolve bilateral trade disputes through negotiations, the Chinese delegation provided the following proposals to the United States [Curran, Zhai 2018]: to expand trade in high-tech products (to allow exports of integrated circuits to China, distribute government procurement on Chinese technologies, lift the exporting ban on ZTE, remove barriers for Chinese electronic payment systems, etc.), to eliminate the metallurgical tariffs, abstain from investigations and trade sanctions against China in the future. The PRC has demonstrated its readiness to make drawbacks, agreed to contribute to the shortage reduction in US trade due to an increase in imports of agricultural and energy products from the United States; “step up cooperation” on the protection of intellectual property rights in China by amending the patent law; create fair and equal conditions for investment competition; to coordinate trade and investment issues at the “high level”.

From the United States side, the moment and direction of the attack were chosen very closely: steel and aluminum in China for a long time experienced overproduction and excess capacity (from 11 to 31 % steel according to different estimates [Lu 2018], and slightly below 30 % for aluminum [The Aluminum Association 2018]). The country faces the need to correct the model of economic growth, reduce inefficient production capacities, reduce dependence on investment and foreign trade, reorient on domestic consumption. The field for domestic economic maneuvering for the Chinese government is limited by a high level of accumulated total debt, which reached 230 % of GDP.

Given the large surplus ($ +375 billion) in foreign trade with the United States, Beijing cannot respond symmetrically on every new round of US tariff rising. Representatives of the Chinese authorities said that in response they would use “qualitative measures.” They will target commodity trade groups vulnerable to Republican voters and supporters of Trump.

US pressure on China’s position is simultaneously done outside the sphere of trade relations. Chinese multinational corporation ZTE, which controlled about 10 % of the world telecommunication market and had numerous contractors among American firms (Qualcomm, Dolby, and Acadia Communications), became an object for the manipulation. In the spring of 2018, the Bureau of Industry and Security of the US Department of Commerce (BIS) announced that ZTE has been violating the American trade embargo against Iran and North Korea. According to the Bureau, ZTE executed contracts for the supply, construction, operation and maintenance of telecommunication networks in these countries using American-made equipment. The company’s position was extremely vulnerable, and it immediately agreed for a deal with the US government. ZTE pleaded itself guilty, agreed to pay a fine of $ 1.4 billion, fire 39 of its employees involved in violations, change top management and go through a seven-year probation period, which involves six independent audits of non-compliance.
Separately, the Wall Street Journal reported April 25, 2018 that the US Department of Justice (DOJ) initiated a similar investigation against the Chinese company Huawei, which controlled 27% of the world telecommunications equipment market in 2017 [Woo, Viswanatha 2018].

On the Chinese side, actions against the stability of the US financial system are supposed likely. The People’s Bank of China (PBoC) has about $ 3.1 trillion in gold and foreign exchange reserves (FXR), which it can channel to support the renminbi value. Of them, about 1.2 – 1.3 trillion. are held in the form of Debt Securities (DS) of the American Treasury.

The mechanical sale of Chinese stockpiles of American DS may cause a short-term supply shock on the US stock market and raise interest rates, but will not be able to cause any tangible damage to the US economy. The US Federal Reserve has sufficiently effective instruments (monetary emission, lowering the interest rate) to neutralize quickly the surplus of securities offered by the PRC. China has no technical capacity to make a sale of US Treasury bonds at one-time, it is estimated that it will take up to a year and a half for this [Setser 2018].

Another mechanism for Chinese to compensate the losses from US sanctions is a controlled devaluation of currency. The growth of economic uncertainty around China and the intensification of the trade war have already exerted pressure on the renminbi and led to the fall down of its exchange ratio to the US dollar by 5.2% from March to June 2018. Since August, the NSC has taken measures to control the creeping devaluation of the renminbi (in effect, by fixing the exchange rate, revised with the daily frequency). This policy option is funded by reduction of the country’s foreign exchange reserves (minus $ 20 billion for September 18) and means that China is paying for Trump Trade War. It will also increase the need for screening of capital outflows from the country. In 2017, Chinese authorities adopted regulations that categorized Chinese foreign investments into supported, restricted and prohibited. Under conditions of devaluation in 2018, the structure of outbound investments would be revised, control strengthened, although BRI investments with the preferential status will be maintained.

If one sharply weakens the renminbi-to-dollar ratio, then tariff losses can be transferred to consumers of Chinese exports. The US is unlikely to leave the devaluation unanswered and will react with the introduction of new tariffs or an increase of their rates. However, the prerequisites for further slow cheapening of the Chinese currency remain. According to Deutsche Bank analysts, the renminbi-to-dollar ratio will drop to 6.95 by the end of 2018 and to 7.4 by the end of next 2019 year [U.S.-China Economic and Security Review Commission 2018c]. The PBoC’s practice of regulated devaluation creates speculative expectations for easing of the rate, further exerting pressure and requiring increased spending of reserves.

The sudden swift devaluation of the renminbi, while preserving China’s FXRs, will cause another type of damage to China: it will weaken China’s trading partners’ positions around the world and will put pressure on the exchange rate of their national currencies. Those of the partners who do not have significant FXRs (Ecuador, Belarus, Hungary, Vietnam, Pakistan, Tunisia, Georgia, Macedonia, Sri Lanka, Mexico, Poland, Turkey, Ukraine, other experts [Kimberley 2018] name the Philippines, India, Indonesia, Korea and Australia vulnerable to currency devaluation), will be forced to reduce the value of their currencies, which would cause exchange rate devaluation wars, that adversely affect the growth rate of world GDP. China, whose economy is an important component of the global, would undergo
a significant slowdown in economic dynamics. The image of the country – the world leader will be undermined, and the strategy of renminbi internationalization to the world class level currency would be destroyed.

To November 1, 2018, US tariffs on $250 billion on Chinese imports were imposed; from the Chinese side the space of increased tariffs is extended to $110 billion of American imports. The probability is preserved that, according to D. Trump’s decision, another $267 billion of imports of Chinese origin will be additionally charged.

The PRC has also lowered tariffs for consumer and agricultural products from third countries, aiming to avoid rising domestic prices and support domestic consumption, including automotive, machine-building, textile and paper industries.

The American Chamber of Commerce in China conducted a survey of the impact of the trade war on its members [AmChamChina 2018] and found that 74% of businesses would suffer from US tariffs and 68% of them from Chinese. Companies expect a drop in profits (51%), an increase in production costs (47%), a drop in demand for products (42%). Under the “qualitative measures” from the Chinese authorities, American firms began to undergo more frequent inspections (27%), slow down customs procedures (23%) and complicated bureaucratic regulation (19%).

Some American companies plan to relocate their supply chains outside the US (31%) or China (30%). 31% of American companies in China intend to review or cancel their investment decisions, relocate production facilities to South East Asian countries (consumer products, telecommunication equipment, automotive and chemical industries) and the Indian subcontinent (aerospace industry). 10% of companies are ready to move their production facilities from China anywhere (retail and supply).

International companies in computer electronics, semiconductors, chips and power supplies are planning to transfer their production capacities from China and even the United States to Taiwan. The Japanese and European car industry, whose capacities are located in the USA, will suffer. Negative consequences of the exchange rate volatility are expected by the companies of the retail sector. Transport and logistics companies in Southeast Asia will benefit, as supply chains would become complicated and demand for their services will grow.

The United States has a strong position in the trade war. In the “peace” negotiations, they will promote the idea of the coherence and equality of trading partners, which in their interpretation means simplifying the access to the Chinese domestic market for American companies. The more general purpose of Americans is to force China to “play by rules” in all spheres of international relations. They will invite Beijing to join the US-European initiatives on WTO reforms aimed at expanding the authority of this organization to examine and control the non-economic instruments of international trade support: state subsidies, intellectual property rights, state-owned investments, technology transfer and cyber-security.

However, China is unlikely to take serious action, as similar requirements will immediately be put forward by other developed countries. The Chinese economy is not ready for full openness, their model of economic growth does not involve competition with foreigners in the domestic market and the abandoning of rigid industrial policy. Abstract ideas of “equality”, “free market economy” will not be accepted by China as the basis for the peace deal due to its lack of precision, China will expect detailed proposals from America.
In the short run, US politicians will be confronted with the requirements of balancing the bilateral trade deficit or demanding broad liberalization of the Chinese economy. The latter, although causing short-term damage to Chinese growth, in the longer term, by attracting new investment and technology in China, can lead to an even greater trade deficit, as well as accelerate the displacement of the United States from the position of the world leader.

Also, America will increase investment screening by expanding the powers of the Foreign Investment Committee, especially with regard to uncontrolled investments in critical technologies, critical infrastructure companies. As a consequence, since the beginning of 2018, there has been a sharp decline in investment inflows from China to the United States and a change in their structure. The health and biotechnology sector has become the leading venue for Chinese FDI, real estate and hotel business in second place, with entertainment ranked third in the wake of investment from Chinese Internet and gaming companies [U.S.-China Economic and Security Review Commission 2018a].

In response, the Chinese government simplifies restrictions on foreign investment in protected industries to stimulate revenues from other countries. Weakness relates to such industries as airplane design and manufacture, agriculture, automobile construction, banking, railway construction and navigation. The total number of protected sectors is reduced to 48, compared with 63 in 2017 and 120 in 2011.

In order to mitigate the negative economic effect from tariffs within the country, China will intensify its own infrastructure projects, reduce taxes and apply monetary expansion policies. In the medium term, this will worsen the aggregate debt situation and may provoke financial hardships.

The internal rebalancing of the Chinese economy will distract the country’s resources from economic growth. The slowdown in China’s GDP growth will reduce its demand for foreign raw materials, their prices on world markets and adversely affect trade in developing countries. Small, open economies in East Asia, such as Taiwan, Singapore, Thailand and Malaysia, are most vulnerable to US tariff war because of their role in global supply chains. Among the Latin American countries Chile would suffer damage as it produces copper used in the China’s electrical industry. According to the IMF, South Korea, Chile and Taiwan are vulnerable to the economic situation in China, where almost 30% of their exports is directed to. Russia could feel side-effect, since China accounts for 10% of its exports.

To strengthen its tactical position, the United States is intensifying cooperation with its traditional allies in East Asia – Japan and Australia, trying to lure India into anti-Chinese alliance. They can find foundation for the tougher cooperation in the lack of historical contradictions and the maintenance of democratic principles: rule of law, free trade, freedom of navigation and peaceful settlement of disputes, as opposed to the Chinese untransparent and neocolonial alternative. India already has military-logistics agreements with the United States and France; Japanese and Indian military personnel will also increase logistic, service and training cooperation. Perhaps a new impetus will be given under countries’ infrastructure initiatives (the Asia-Africa Growth Corridor).

EU countries, with a large internal market, will be valued by China as the most important alternative for selling goods and investing. In response, EU countries will also try to gain from the PRC preferential access to its market. The largest positions in Chinese imports from Europe are just those goods that have been covered with anti-American tariff restrictions – vehicles and equipment, machinery and equipment, chemicals and medical instruments. The European aviation industry is
also counting on the displacement of an American competitor from the Chinese market. But according to forecasts, European companies will benefit greatly, increasing their presence in the US markets ($ +69 billion) than in China ($ +32 billion) [Garcia-Herrero 2018]. If the PRC loses United States requirements and opens up access to domestic markets, European firms will become America’s main rivals and experience significant losses.

In the medium term, China will try to form its own alliance from southern and eastern Asia, with Indonesia playing a key role. Due to internal instability and high levels of corruption, this country cannot establish economic cooperation with the West. The country seriously lacks of investments, which China can offer in large volumes as part of the “One Belt – One Way” framework. At the moment, China has also weakened its pressure on North Korea, pushing it from the brink of a humanitarian catastrophe. In parallel, it accelerated the rapprochement with Moscow and Tehran, other regional rivals of the United States.

The trade war between the United States and China has a moderate threat to Ukraine. Ukraine could have been more successful in exporting its agricultural products to China. In 2017, Ukraine exported $ 1.1 billion worth of soybeans, of which only $ 5.8 million went to China. The Chinese market was closed for Ukrainian soybeans. On July 1, 2018, China abolished the rates for soybeans from Bangladesh, India, Laos, South Korea and Sri Lanka. Ukraine needs to intensify the promotion of agricultural products to the PRC market through bilateral agreements.

US tariff protection has threatened Ukrainian exports of steel products. Domestic metallurgical companies will be forced to look for other markets where they will have to compete with Chinese enterprises. The PRC maintains a large number of unloaded metallurgical capacities supported by subsidies from the state. In the cases of unfair competition, the protection of the interests of Ukrainian producers must be realized through WTO mechanisms.

Ukraine should not expect the rapid movement of global supply chains affected by trade warfare into its territory. The production of high-tech products requires modern infrastructure, well-trained and disciplined staff. Most of the Chinese and American supply chains are laid across the countries of Southeast Asia. To include there Ukraine is inappropriate from logistical point of view. Instead, Ukrainian high-tech companies can look for possibilities to integrate into European-Chinese chains. That initiative requires state monitoring, financial support and promotion.

A smooth devaluation of the yuan to the dollar will gradually increase the shortage of bilateral trade between China and Ukraine. Under a negative balance of financial account, it will put pressure on domestic FXR and the exchange rate of hryvnia to the dollar. It is desirable for the National Bank of Ukraine and the Ministry of finance to strengthen cooperation with the International Monetary Fund to expanding the national FXR.

The general uncertainty and disfunctionality of international institutions caused by the US actions will lead to an increase in international investment and currency risks. They will complicate Ukraine’s foreign direct investment attraction from all directions.

If the United States succeeds in undermining China’s economic power, slowing its growth or making it negative, the world would plunge into a global economic crisis that can capture virtually all markets and all countries. Due to the weakness of its economy Ukraine will be among the most affected countries. In the face of such a threat, Ukraine should support initiatives to prevent and mitigate the conflict between the two countries in the international arena.
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КИТАЙ У ТОРГОВЕЛЬНІЙ ВІЙНІ ПРОТИ США:
ТАКТИЧНІ МОЖЛІВОСТІ ТА ПЕРСПЕКТИВИ
Д. П. Єфремов

Навесні 2018 року влада Сполучених Штатів ініціювала політику обмеження торговельної присутності китайських компаній на національному ринку. Вона включала перегляд тарифних ставок на продукти, якими торгують, зміну режиму інвестування. Реакція Китаю викликала серію послідовних кроків кожної зі сторін протистояння, які будуть у майбутньому справляти суттєвий вплив на двосторонні економічні відносини. Стаття присвячена оцінці позицій КНР та США в суперечці, їхніх тактичних завдань та стратегічної мети, арсеналу інструментів симетричної відповіді та асиметричного впливу на ситуацію. У процесі аналізу доводиться слабкість позиції Китаю в торговельній війні, оцінюються можливості скорочення його золотовалютних резервів та девальвації національної валюти, прогнозуються наслідки таких кроків. Автор визначає бенефіціарів та постраждалих від торговельного конфлікту КНР та США. Серед розвинутих країн вигоду можуть отримати країни Європейського Союзу, а Японія та Південна Корея можуть зазнати втрат. Країни, що розвиваються, опиняються в таборі постраждалих від конфлікту. Особливо великі втрати зазнають країни Південно-Східної Азії. Ризики для стабільності економіки України від торгової війни оцінено як помірні, виявлено можливості зростання її торговельного потенціалу та ускладнення залучення іноземних інвестицій.

Ключові слова: торговельна війна, торговельний конфлікт, Китай, КНР, США, економічна стратегія, міжнародні відносини

КИТАЙ В ТОРГОВОЙ ВОЙНЕ ПРОТИВ США:
ТАКТИЧЕСКИЕ ВОЗМОЖНОСТИ И ПЕРСПЕКТИВЫ
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Весной 2018 власти Соединенных Штатов инициировали политику ограничения торговогого присутствия китайских компаний на национальном рынке. Она включала пересмотр тарифных ставок на торговые продукты, изменение режима инвестирования. Реакция Китая вызвала серию последовательных шагов каждой из сторон противостояния, которые будут в будущем оказывать существенное влияние на двусторонние экономические отношения. Статья посвящена оценке позиций КНР и США в конфликте, их тактических задач и стратегических целей, арсенале инструментов симметричного ответа и асимметричного влияния на ситуацию. В процессе анализа обосновывается слабость позиции Китая в торговой войне, оцениваются возможности сокращения его золотовалютных резервов и девальвации национальной валюты, прогнозируются последствия таких шагов. Автор определяет бенефисиаров и пострадавших от торговогого конфликта КНР и США. Среди развитых стран выгоду могут получить страны Европейского Союза, а Япония и Южная Корея могут понести потери. Развивающиеся страны окажутся в лагере пострадавших от конфликта. Особенно большие потери могут понести страны Юго-Восточной Азии. Риски для стабильности экономики Украины от торговой войны оценены как умеренные, выявлены возможности роста ее торговогого потенциала и осложнения привлечения иностранных инвестиций.

Ключевые слова: торговая война, торговый конфликт, Китай, КНР, США, экономическая стратегия, международные отношения

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