**Trade beyond barriers**

Beelam Ramzan

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US-China relations have soured over the past few years mostly due to the accusatory tone adopted by successive US presidents. Previously it was Donald Trump and now Joe Biden has joined his predecessor in accusing China of unfair trade practices, intellectual property theft, and increasing trade deficit. Like Trump, Biden is sceptical of China’s supremacy.

Despite this visible deterioration of relations and the ongoing trade disputes, the trade volume between the two countries is actually growing. The last three years have witnessed the US push exports to China and increase imports from China despite signs of friction between the two countries – from tariffs and tech wars to spying allegations and military escalation. What is the rationale of raising fences when the objectives of the US are not being met?

According to the Pew Research Center 2023, almost 78 per cent American consumers see China as an economic threat and 73 per cent see it as a security threat. This negative perception is coupled with an equally sordid corporate pessimism. According to the American Chamber of Commerce, US companies are negative about doing business in China with 66 per cent blaming uncertainty of bilateral relations, 55 per cent don’t regard China as a top investment priority, and 49 per cent term it as less welcoming to foreign companies due to travel restrictions, rising labour costs, and trade disputes.

In this grim scenario, when the government, firms and consumers share a less optimistic approach towards trading with China, it is interesting to note that the year 2022 registered a record high trade of $ 690.6 billion between the two adversaries in the last three years. The US exported goods to China worth $153.8 billion, an increase of 1.6 per cent and imported from China goods worth $536.8 billion, an increase of 6.3 per cent as compared to 2021.

The statistics reflect that both economies are highly dependent on each other despite being at odds and are willing to trade amidst the rancour of unfair trade practices because there is economic advantage. Decoupling is not a virtual possibility for the US when China is a major trading partner.

‘De-risking’ is an alternative option being talked about in political economic circles, which means being more independent and not too much dependent on a certain economy. The US advocated de-risking from China during US Treasury Secretary Janet Yellen’s visit (July 11) to Beijing. It has committed billions in high-tech manufacturing and scientific research to boost its industry as a countermeasure to China’s rising clout. The challenge to de-risk without a conflict is a test case because it is true that not only is China a competitor, but it is also a trade partner.

The way the US is approaching relations with China appears to be flawed. First, imposing tariffs on goods has neither deterred trade nor reduced the trade deficit – which Trump and Biden aimed – but actually increased both. The trade deficit of the US has ballooned to $382.9 billion in 2022, a record high, with a trade balance in favour of China consistently. The trade quantum, for the last three years, has increased despite the fact that a major share of 66.4 per cent of US imports from China and 58.3 per cent of China’s imports from the US are under tariffs.

Second, America’s economic power is not declining. The US’s share of global output has remained unchanged, if not unchallenged, since 1980 – 26 per cent of the global output. China’s share at present is around 18 per cent, larger than Europe, but less than the US. America’s economic supremacy is not under threat from China’s rise.

Third, moving supply chains outside China in an attempt to decouple or de-risk will not be successful in reducing China’s global influence. The US has limited its investment in semiconductor manufacturing in China and taken stringent measures to stop the export of technology from China. Even if the US shifts to alternative supply chains, there is a possibility that those supply chains will still depend on China for their imports of many critical components. For example, the US has shifted iPhone manufacturing from China to India, but is there a possibility that the latter will not depend on China for its import?

Fourth, the US is seeking allies to wage this war and is looking at Europe, Taiwan, Japan, India, and the Trans Pacific, which is futile. If the TSMC, a chip-making unit in Taiwan, is threatened for selling 60 per cent of its products to China and compelled to invest in the US, will this deter the rising economic growth of China?

Similarly, the threats to ban the social media app TikTok and the export restrictions on Huawei will not have any impact on China’s global influence. The IMF’s ‘World Economic Outlook Growth 2023’ has already projected China’s economic growth at 5.2 per cent overtaking major economic giants like the US, Germany, Italy, the UK, France, the Netherlands and Spain.

Fifth, America’s case is hampered by the discrepancy it sets in the rules of global trade. The US built a new world order in the early 1950s to keep peace between superpowers. Today that order – based on free markets – is frayed due to trade barriers, export controls, and technology bans. The deterioration of this rules-based trading system will have serious implications for the world in general.

While China needs technology products from the US, American companies will need to run their supply chains through China. This dependency on each other will continue in the intertwined global world. Hence, talks of cooperation with export control, engagement with decoupling will not work.

America’s case will be stronger when tariffs recede, tech bans relax, and relations with China stabilize. The Biden doctrine, which is based on American pre-eminence, emphasis on national security, and breaking the few global economic rules to deter China’s supremacy, will not be productive.

The writer holds an LLM degree in international economic law from the University of Warwick. She can be reached at: beelam\_ramzan@ yahoo.com