Research on Sino-US Trade Friction Problem
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Abstract: The Sino-US trade has significantly progressed since the diplomatic relations were established between the People’s Republic of China and the United States of America. Nevertheless, as the rapid development of the economy of China over the years, more trade conflicts between the two countries are standing out. In particular, the economy of the US is at a low ebb as a result of the sub-prime crisis. Therefore, new characteristics emerge in the Sino-US trade conflicts. Under such circumstances, how will the government and the enterprises react? The essay hereof gives special analysis on the new characteristics in Sino-US trade conflicts, and puts forward reasonable suggestions on how to deal with the conflicts.

As the world's largest developing country and largest developed country, China and the United States are both important trade and investment partner, which plays an important role to the economic globalization and trade liberalization process, so the economic and trade relations between the two countries have been impressive. After the normalization of Sino-US relations, trade relations between the two countries have come into a period of rapid development. With the growth of international trade, the trade friction between the two countries are developing continuously and steadily.

The Review of Sino-US Trade

In January 1979, China and America established the diplomatic ties and in July of the same year the two governments signed the agreement on Sino-US trade relations so that the development of china-us economic and trade exchanges increased rapidly.

The Rapid Development of Bilateral Trade

With the deepening of China's reform and opening up, Sino-US trade volume rapidly has been ascended. The data showed that Sino-US trade volume was $2.46 billion in 1979. According to statistics issued on February 11, 2011 from the ministry of commerce, from December1to12, 2010, the Sino-US trade in goods reached $456.82 billion, up 24.86% from a year earlier, including the U.S. exporting to China $91.78 billion, an increase of 32.2% and being exported from China $364.94 billion, an increase of 23.14%. America's trade deficit with China went up to $273.07 billion, up 20.36% from a year earlier, which has increased by 188 times in 30 years. The two countries occupy the important position in the other's foreign trade. The data from China's ministry of commerce showed that China is America's second largest trading partner, but China is the fastest growing markets overseas.

The bilateral trade volume grows and at the same time the trade structure of China and the United States there has been a qualitative change. Gradually since the 1980’s the textile has exported from China to the United States and light industry products have been changed into communications products and high class products. The imports from China to the United States also shift from agricultural to machine technology.

Sino-US Trade Friction

Because of the domestic political issues and the trade protectionism in the United States, the normal economic and trade relations between China and the United States were affected by a lot
and the trade friction has been growing. From 1979 to 1979, the anti-dumping from the United States and implementing the quota restrictions mainly involved textiles and some industrial products. 2000 years later, the number of anti-dumping has increased year by year and the textile, light industry and other fields gradually spread to the chemical industry, steel, mechanical and electrical and hi-tech products. After the entry of WTO, the request that United States asked for China's expanded to the intellectual property rights, law enforcement, government procurement, life science and technology products market access, insurance and telecommunications market access, subsidies, and many other fields. Sino-US trade friction is rising from pure trade the level of the whole economic structure, such as China's market economy status, the issue of RMB exchange rate and labor issues. Especially after the subprime crisis in 2008, the trade protectionism of the western countries under the US-led looked up. In September 2009, Obama approved they would import to China's all the light vehicle and car tires in 4% of the regular duties, a 35%, 25% and 35% respectively on the basis of punitive tariffs in the next three years, involving a value of $2.2 billion on impact of employment of China's 100000 people. Since the tire safeguard case, industrial acid, chicken and other import duties that were imported from the United States to China were imposed on or taken trade restrictions, at the same time the United States began to deal with domestic accusations of other "dumping" commodities to China. According to the data from China's ministry of commerce official, from January 1, 2010 to December 31, 2010, international trade commission of the United States initiated a total of 58, 337cases, including 19 investigations by the prosecution involving Chinese companies, a third of the total number of investigations. The trade commission of the United States launched a total 337 survey and marking cases have reached a record high. The characteristics of 19 cases: the patent infringement lawsuit; mechanical and electrical products for the most part, such as dynamic random access memory, display devices, semiconductor integrated circuit chips, and inkjet cartridges, etc, most of which involved foreign investment enterprises in China.

**Sino-US Trade Friction Characteristics**

**The Frequency Increase of Sino-US Trade Friction**

The Sino-US trade survey were 14 in 2009 and 19 in 2010, and by the end of April 2010, the Commerce Department has launched an investigation into Chinese companies or ruling 13, which showed the frequency of the Sino-US trade friction increasing.

**The Strong Increase of Sino-US Trade Friction**

With the frequency of trade protection growing, the punitive tariffs on case amount and scope that the United States impose to China's export products increased, too. In November, 2009, the punitive tariffs limit reached 43.8% from the U.S. department of commerce on imports of metal wire mesh pallet to China. By the end of 2009 the US international trade commission got the approval to import about $2.74 billion to Chinese well tube worth 10.3% to 15.78% duties, reaching the largest amount trade sanctions on China finally.

**The Legislation Introduced Gradually in Dollar against Renmibi**

The objective factors of Renminbi appreciation rising mostly depends on China's trade surplus and huge foreign exchange reserves, etc. According to statistics, in 2001-2009 China's trade surplus with the US continued to expand, the surplus was 280.8, 427.08, 586.13, 802.69, 1141.74, 1442.63, 1633.25, 1708.57, 1433.73 (billions of dollars) in turn. In 2008 China's exports to the United States trade surplus reached a maximum $1708.57. In 2008 under the influence of the financial crisis, the trade exports from the United States to China's fell, even grew negatively. As far as March 2011 our country had the largest foreign exchange reaching $2.8473 trillion, becoming the world's largest foreign exchange reserves. At present, the indicators of China's foreign exchange reserves are much higher than the international warning line. Some of the domestic empirical study shows that the increase of China's foreign exchange reserves in the long term will impact on
Renminbi’s nominal and effective exchange rate, making Renminbi facing upward the pressure for a long time.

Because of the huge trade deficit between the United States and China, and high unemployment in the United States, the United States put pressure on our government in order to maintain its financial supremacy for the higher the Chinese currency against the dollar, which mainly manifested the following three points: Firstly, the United States congress put forward legislation in China constantly; Secondly, industry put pressure on China through the trade alliance; Thirdly, American government put pressure on China with the help of the international multilateral financial institution.

On September 29, 2010, the House of Representatives of U.S. passed “the currency reform to promote fair trade act”, which demands the government fundamentally undervalued the country’s currency against the dollar in 18 months for a certain export to make decision based on the specific requirements. Relevant government departments import of relevant countries countervailing or anti-dumping duties to offset "deviation" and make a positive final determination for importing countervailing or anti-dumping duties from relevant countries.

More Diverse Trade Barriers from the United States to China

Although the United States has been pressing to China for the appreciation of the Renminbi, which could not rise sharply in a short period of time because the Renminbi has applied floating exchange rate regime based on market demand. The U.S. strengthened the unilateral trade barriers and forced the yuan to rise at the same time. At present The building trade barriers made by the United States are more and more diversified: Under the conventional tariff barriers with the international trade liberalization trend gradually reducing, non-tariff barriers constitute a complex and powerful group of trade barrier to trade all on the stages, such as the trade remedy measures, technical standards, environmental standards, labor standards, and "special section 301 investigation" and "section 337 investigation".

The Content of Sino-US Trade Friction Upgrade

With development of science and technology of China continuously, the technical levels of Chinese products are gradually improving, the focus of Sino-US trade friction have been changed from the original textile, light industry products upgraded to labor capital intensive industries. Although, the U.S. trade deficit with China continue to improve in recent years, in the field of science and technology, the trade between the US and China has been a surplus due to its high-tech added value, this part of which is profitable. As a result, the United States will strengthen this part of the degree of protection to reverse its high in the Sino-US trade deficit. But industry structure of China has been upgrading gradually, which is a transform from “made in China” to “created in China”, China has achieved remarkable results, especially in the field of the new energy, new materials, photovoltaic (pv) etc, communications and other fields to make the similar products is much cheaper. So the United States strengthened the protection of the trade and paid more attention to the protection of intellectual property rights.

China’s Strategies to Deal with the Sino-US Trade Friction

Adhering to the Stability of RMB Exchange Rate and Taking Measures to Ease the Pressure of RMB Appreciation.

China should adhere to the established monetary policy and can’t compromise under external pressure. Meanwhile, in order to alleviate the pressure of RMB appreciation, the export tax rebates needs to phase out to alleviate the current-account surplus pressure; Domestic demand should be developed and the dependence on foreign trade ought to be reduced; The Chinese government shall implement the trade policy of leading import by export and promoting export by import in order to expand import from the United States; Accelerating the construction of RMB forward exchange market and publicizing the exchange rate risk to enterprises, improving the efficiency of financial derivatives; Completing the formation mechanism of RMB exchange rate based on floating
exchange rate system which is on the basis of basket currencies, improving the regulation art of “micro, two-way, steady climb”, enlarging the floating range, adjusting the exchange rate to balance through market mechanism together with other policies.

**Strengthening the “Going Out” Strategy to Promote Direct Investment in the United States.**

The direct investment in the United States can avoid trade barriers and reduce China’s trade surplus with the United States. The United States, with sound investment environment, highly developed market, perfect macro regulation, optimizing infrastructure construction, stable political environment, advanced technology, high-quality labor, progressive management thoughts, plenty and perfect government policy, is a suitable place for the investment of Chinese enterprises.

Thus, the government can support enterprises in the following ways: guide them in policy, support them in the capital and leave them convenience in foreign exchange management. For the enterprises, especially the trade, financial and industrial enterprises which invested in the U.S, can take advantage of the preferential policies and go abroad at appropriate time. They can make direct investment to American manufacturing industry, high-tech industry, resource industry, service industry and wholesale trade by means of mergers and acquisitions etc.

**Avoiding the Rules of Origin Through Intermediary Trade in the Free Trade Area.**

The rules of origin is to determine the “nationality” of goods—which is the source area of goods. A country usually implement different policies on import goods of various “nationality”, such as quotas, licenses and quantitative restrictions. Therefore, rules of origin is a “policy problem” with enormous economic benefits behind rather than simply “technical problem”. With the rapid development of economic globalization, the “nationality” of product is blurred day by day. However, as all countries implement different treatments to the goods with diverse “nationalities”, the rules of origin has become an important part of a country’s economic and trade policies, which is widely applied in technology transfer, industrial upgrading, domestic demand stimulation, inspection and quarantine measures, most-favored-nation treatment, national quotas, anti-dumping and anti-subsidy measures, safeguard measures, government procurement, trade statistics, GSP country and various preferential trade agreements, etc.

Free trade zone is set up between the countries which are mutually agreed to eradicate tariff and non-tariff trade barriers. For the enterprises, they can take advantage of rules of origin and set up factories to the most underdeveloped countries actively. They can also get benefits from GSP treatment, NAFTA preferential treatment, taking quota initiative and bypassing the U.S. quota restrictions, which help enterprises avoid the trade barriers designed by the United States.

**Implementing Effective Government Public Relations Strategy, Strengthening High-Level Visits and Resolving the Sino-US Trade Disputes by Consultations.**

The high-level political talks is an important basis for the stable and healthy development of Sino-US relations. Currently, maintaining and increasing the meetings of senior officials of the two countries plays an important role to strengthen mutual understanding of each other’s policies and reduce antagonism from the US towards China.

A long-term and regular mechanism needs to be established between China and the United States to explore the problems between the two countries and properly handle the economic and trade relations.

**Accelerating the Adjustment of Industrial Structure and Enhancing the Core Competitiveness of Products.**

The Chinese government shall make corresponding policies to support and promote the development of high-tech industry and create a beneficial political, social and economic environment. Also, advanced technology can be used to upgrade traditional industries so as to make our country get rid of the humble position in international labor market with low added value. The Chinese government shall promote the traditional industries transform to high-level and high-tech industry constantly, as well as reduce the trade friction with other countries.
References


