

Thesis: US-China Relationship in the Global Economy

Number of page: 7
Urgency: 4 days
Academic level: Master's
Style: MLA
Number of sources: 10

Abstract

Currently, China and the US are the biggest economies in the world. The economic relationships between them are essential to the growth of the global economy in the future. However, the ties between these two nations have been in constant conflict. Special interests group controls the US trade policy toward the Chinese market. The bilateral surplus of China generates political concerns in the US. The Chinese imports have eliminated imports from developing nations with little impacts on local production. The effects of the fast development of bilateral relations between two countries are positive on the economy of US.

Introduction

China and the US are the leading economies across the globe currently, and the type of their relationship has a significant effect on the effective functioning of the financial systems and the international trade. The two nations are turning out to be more integrated in terms of their people financial capital, and goods (Kissinger 45). Moreover, relationships between these economies are essential to the growth of the international economy in the future. However, the economic relationship between them has faced some challenges. China is the most populous nation in the world, and has recorded a high rate of growth in the past decade. In addition, it is trying to implement and design major economic reforms (Lieberthal and Jisi 4). Trade conflicts emerge between the country and the US leading to unfriendly bilateral negotiations.

Sino-American Economic Relations

The high rate of China's integration into the world economy has prompted specific challenges for affluent nations such as the US. China has a swiftly rising total bilateral trade excess with the United States (Kissinger 45). The dissimilarities in the political structure, the

expanding bilateral imbalance and the imports concentration in small manufacturers all determine the political debate in the US.

In 1994 at the single digit standard international trade classification (SITC) level, the United States exports to China was highest due to transportation and machinery at \$5.1 billion, chemicals at \$1.5 billion, while mining occupied \$1.2 billion. The three figure SITC group featured exports such as telecommunication materials (\$563 million), cotton textile fibers (\$648 million), fertilizers (\$944 million), aircraft (1.9 billion) (Lieberthal and Jisi 5). On the other hand, the Chinese imports prominently featured light manufactures, apparel, and footwear which was worth \$24.2 billion, while pottery, wood products, and textile materials were at \$3.3 billion, and transportation equipment \$9.0 billion (Peng 97). Furthermore, apparel reached \$1.7 billion and girls and women coats \$2.0 billion, footwear \$5.3 billion, and sporting, games, and toys goods were \$5.5 billion. Such belong to the SITC third category. Moreover, such imports are entirely labor-demanding manufactures. According to economic theory, labor-demanding products produces descending pressure on the salaries of import conflicting local low-skilled labor in cases where manufacturing in these activities is conducted domestically (Lampton 51).

SITC Code	Industry Sector	US Exports to China	U.S. Import from China	Trade Balance
0	Food and Live Animals Chiefly for Food	276,845	528,433	-251,588
1	Beverages and tobacco	6,401	12,331	-5,930
2	Crude Materials, Inedibles, Except Fuels	1,152,257	251,414	900,843
-263	-Cotton Textile Fibers	648,128		
3	Mineral Fuels, Lubricants and Related Materials	61,146	362,691	-301,545
4	Animals and Vegetable Oils, Fats and Waxes	134,812	3,279	131,533
5	Chemicals and Related Products, N.E.S.	1,507,859	722,823	785,036
- 562	- Fertilizers (except crude)	944,121		
6	Manufactured Goods Classified Chiefly by Materials	407,734	3,344,552	-2,936,818

Figure 1 Imports and Exports Dependence (Lieberthal and Jisi 4)

Furthermore, in 1994, the industrial sectors in the US were highly reliant on China. The exports to China included the agricultural pesticides, which accounted for 40 percent of total exportation to China. Others exports from the US to China include vitrified plumbing fittings, non-cellulic synthetic fibers, structural metal parts, welding apparatus, and phosphate fertilizer at 10 percent, 12 percent, 14 percent, 16 percent and 33 percent respectively (Lampton 52). On the other hand, segments where Chinese imports were responsible for over 50 percent of domestic consumptions included miscellaneous goods such as wigs, umbrellas, and cigarette lighters at 55 percent, plastic and rubber footwear 66 percent, and dolls at 75 percent (Peng 100). Other included leather gloves, and leather apparels at 51 percent and 53 percent respectively.

SITC Code	Industry Sector	US Exports to China	U.S. Import from China	Trade Balance
0	Food and Live Animals Chiefly for Food	276,845	528,433	-251,588
1	Beverages and tobacco	6,401	12,331	-5,930
2	Crude Materials, Inedibles, Except Fuels	1,152,257	251,414	900,843
-263	-Cotton Textile Fibers	648,128		
3	Mineral Fuels, Lubricants and Related Materials	61,146	362,691	-301,545
4	Animals and Vegetable Oils, Fats and Waxes	134,812	3,279	131,533
5	Chemicals and Related Products, N.E.S.	1,507,859	722,823	785,036
- 562	- Fertilizers (except crude)	944,121		

Figure 2 US and China Imports and Exports (Peng 102)

The Economic Policy of US toward China

The economic policy of the United States towards China aims at enhancing liberalization of the economic and political environment in the country, incorporate China into international bodies, and advocate for exporters' interests (Lampton 53). A wide range of demands from local special interests especially human rights activists, exporters, and import contending sectors have distinct agendas, which affect the policy. Subsequently, the economic policy of the US toward China features an array of competing interests having many goals since special interests possess an influence on specific concerns. Therefore, due to the non-existence of local consensus on the tactics, strategies, and goals in the policy, it is typically considered an inconsistent approach (Lieberthal and Jisi 6). Concerning the economic domain, China relations are swayed via global, regional, and bilateral settings as well as in both financial and trade issues.

Bilateral Matters

The mutual interrelations between the two governments are primarily characterized by trade conflicts due to the level of bilateral imbalances and the degree of intra-industry business. Reports indicate that the economic conflict between the two nations is likely to deteriorate. The proportion of China's trade with the United States is expected to increase

significantly (Kissinger 46). Therefore, China may turn out to be the fifth biggest economic partners after the European Union, Japan, Mexico, and Canada.

Import-competing Segments

The economic dispute between China and the US is expected to continue.

Traditionally, the central concerns of the trade conflict have occurred due to protectionist's pressures introduced by the United States light manufacturers. For instance, the proportion of Chinese bicycle market in China improved to 23.7 percent from 14.6 percent between 1994 and 1995 (Lampton 55). However, three companies in the US filed a court petition against China intended to control dumping. The principal activities have emerged in apparel and textile. Nonetheless, the traditional incapability of the US to oppose protectionists escalates where Chinese imports increases. Furthermore, Chinese circumvention of legal restrictions on apparel and textile trade has pooled to become a severe source of contention (Lieberthal and Jisi 7).

China evades its bilateral apparel and textile shares especially by transshipping goods via third economies, which are typically engaged by bilateral measures (Naughton ed. 49). In this regard, Chinese replaces their products for the unaccomplished allocation of third nations. According to the US Customs Service, such transshipment is worth more than \$2 billion (Kissinger 49). The major transshipment includes high wage areas such as Singapore, Macau, Taiwan, and Hong Kong.

Transshipping is considered criminal activity in the US hence; trans-shippers are reliable to an offense. Currently, the Justice Department and Customs have initiated the main campaign intended to sue trans-shippers (Ferrantino, Liu, and Wang 12). Recently, there was a widespread conviction linking a Chinese firm owned by the state (Lampton 56). In the past decade, the US has slashed the quota of cotton underwear from China by 35 percent and minimized some other allocations since companies were unlawfully transshipping textiles via Hong Kong mismarking them as metal furniture and video re-winders (Peng 101). Chinese imports from the United States have raised questions on whether they relocate production in the domestic market subsequently applying substantial downward pressure on

the salaries of the low-skilled employees hired in these industries (Lieberthal and Jisi 10).

There are also concerns that these imports substitute imports from other parts of the world.

Using the constant market share (CMS) approach, the effects of the Chinese imports into the US markets can be undertaken. The analysis is founded on the concept that a particular economy's share of global production is a purpose of its "competitiveness" (Lampton 57).

$$s \equiv \frac{q}{Q} = f\left(\frac{c}{C}\right), f'(\cdot) > 0$$

Source (Peng 101)

Where c signifies competitiveness, q denotes production quantity, and s represents share. The capital letter embodies global values while the small letter demonstrates reporting economy values. Reorganizing and distinguishing in terms of time, Equation (1) provides

$$= s\dot{Q} + Q'f\left(\frac{\dot{c}}{C}\right)$$

Source (Peng 101)

The dotted variables represent time derivatives. Therefore, in Equation 2, alterations in the production of reporter nations are disintegrated into two terms (Morrison 6). The initial figure highlights what the nation's production would have been in case it is merely sustain its share of global production (Peng 103). The second illustrated loses or gains resulting from share changes or competitiveness.

Consequently, production is also a function of the arrangement of local imports, exports, consumption and alteration in production will be influenced by the partner (geographical market) and commodity structure of trade (Kissinger 49). For instance, economies focusing in exports to firstly rising partner nation or market would encounter quicker export progress than competitors focusing in gradually developing markets for a certain level of comparative competitiveness (Lawrence 13). Nevertheless, their shares in such economies would be persistent if the underlying competitiveness issues remain unaffected (Lieberthal and Jisi 13). Therefore, a complex approach can be established by

disintegrating production into imports, exports, and consumption as well as redefining the association in Equation 1&2 based on specific markets-geographic-commodity (Lampton 59).

$$\dot{q} \equiv \sum_i \sum_j s_{ij} \dot{C}_{ij} + \sum_i \sum_j C_{ij} \dot{s}_{ij} - \sum_i \sum_j s_{ij} \dot{M}_{ij} - \sum_i \sum_j M_{ij} \dot{s}_{ij} + \sum_i \sum_j s_{ij} \dot{X}_{ij} + \sum_i \sum_j X_{ij} \dot{s}_{ij}$$

Source (Lampton 59)

Equation 3 and 4 indicated above where j and I represent partner and product respectively. The initial equation demonstrates the CMS frequency of consumption development - the production growth rate that would have taken place if the nation merely sustained its market share in local consumption in every commodity economy (Kissinger 50). The second term provides the variation in production for local consumption due to variations in share especially the variation in competitiveness. The remainder of the phrases in Equation 4 can be described analogously.

The CMS approach has been utilized to information of US imports, exports and production from 1988-1994 (Steinberg and O'Hanlon 19). At the sectorial stage, information was disintegrated to 460 product segment at the four figure SIC standard, three geographical markets (China and the US) while the rest of the globe was distinguished (Peng 105). In 1994, the findings highlighted that the Chinese proportion in US consumption was nearly \$10.9 more than would be anticipated in China had simply sustained its competitiveness in the US economy since 1988. Nonetheless, the largest share of this gain (\$10 billion) disadvantaged third world imports (Lieberthal and Jisi 21). Furthermore, Chinese imports only dislodged about \$900 million of production in the US destined for local consumption (Lampton 60).

The United States exports to the Chinese economy were nearly \$700 million more than anticipated. Therefore, the Chinese business with the United States minimized the production in the industries by close to \$200 million more than the anticipated amount if China and the US had preserved their relative competitiveness. Based on these facts, it would have contributed to the loss of about one thousand jobs (Kissinger 52). Therefore, such trade

has enabled China to improve its competitiveness which has disadvantaged the exporters in the third world which the US has recorded minimal direct impact (Gallagher and Peters 13).

Conclusion

China and the US are the leading economies across the globe. The Sino-American relationship has exhibited conflicts between the two nations. The enormous bilateral surplus of China has generated political debate in the US leading to trade tensions irrespective of the economic virtues of such political fears (Lieberthal and Jisi 22). Moreover, the effects of the faster development of bilateral business on the economy of the US are beneficial although it is not significant as expected. Furthermore, Chinese imports have mainly dislodged the third world's imports but do not affect local production. The exports have also increased.

Work Cited

- Ferrantino, Michael J., Xuepeng Liu, and Zhi Wang. "Evasion behaviors of exporters and importers: Evidence from the US–China trade data discrepancy." *Journal of international Economics* 86.1 (2012): 141-157.
- Gallagher, Kevin P., and Enrique Dussel Peters. "Chinas Economic Effects on the US-Mexico Trade Relationship. Towards a New Triangular Relationship?." *China and the New Triangular Relationships in the Americas. China and the Future of US-Mexico Relations* (2013): 13-24.
- Kissinger, Henry A. "The future of US-Chinese relations: conflict is a choice, not a necessity." *Foreign Affairs* (2012): 44-55.
- Lampton, David M. "A new type of major-power relationship: Seeking a durable foundation for US-China ties." *Asia Policy* 16.1 (2013): 51-68.
- Lawrence, Susan V. *US China Relations: Policy Issues*. DIANE Publishing, 2012.
- Lieberthal, Kenneth, and Wang Jisi. *Addressing US-China strategic distrust*. Vol. 4. Washington, DC: Brookings, 2012.
- Morrison, Wayne M. "China's economic rise: History, trends, challenges, and implications for the United States." *Current Politics and Economics of Northern and Western Asia* 23.4 (2014): 493.
- Naughton, Barry, ed. *The China circle: Economics and technology in the PRC, Taiwan, and Hong Kong*. Brookings Institution Press, 2012.
- Peng, Mike W. "The global strategy of emerging multinationals from China." *Global Strategy Journal* 2.2 (2012): 97-107.
- Steinberg, James, and Michael E. O'Hanlon. *Strategic reassurance and resolve: US-China relations in the twenty-first century*. Princeton University Press, 2015.