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US-China Trade Relationship under Joe Biden Administration: a Theoretical Prediction

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ABSTRACT

This paper has made an attempt to theoretically predict the US-China trade relationship under the Joe Biden administration formed after the US presidential election in 2020. The author has utilized the published sources such as journal articles, newspapers and Internet to seek secondary information. The author argues that, after evaluating the information, China will continually be under pressure regarding the bilateral trade from the current US administration. The pressure will be the outcome of aggregate US national interest (trade and political) and the long-term US opposing culture against China's rise (economically and politically). However, the author further expects that such opposition will not be as severe as the Trump administration's period. The paper is expected to be useful for the trade analysts, top managements of multinational corporations and researchers alike for conducting new policy analysis and further research investigations regarding bilateral trade in a disputed political context.

1. Introduction

Being the two largest economies, the US-China trade relationship is significant not only for those two countries but also for the rest of the world. Those two countries always have been involved in political and trade conflict more or less since the end of the Second World War. However, during five

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years particularly under the Trump's administration, the overall blaming culture between two nations led to a fullest trade war and such a negative relationship has been further intensified during COVID-19 outbreak. The rising nationalist sense both in the USA and China contributed to such trade dispute which has further been accelerated during COVID-19 era.

Despite of having common fundamentals, the sources of nationalism in the two countries are not the same. Inside USA, a rising section of the citizens believe that the country lacks political depiction and defense of its values (Dadgar, 2020). As a result, a number of US citizens, especially the white nationalists responded strongly to the call of Trump's "America First" agenda. In return to their unconditional support, the former US President Donald Trump continued to oppose China and Chinese products predominantly from the manufacturing and agricultural sectors and formed a racial and religious identical base. On the other hand, in China, political leaders of the Communist Party of China (CPC) resented the lack of global political status commensurate with fast economic growth and rising military power demanding more respect for their bubble of influence and mobilized against US threats to Chinese sovereignty. Indeed, China has aspirations to global leadership status in equivalence to the USA and Russia (Boylan et al., 2020).

The motive or aim of this theoretical paper is to make some predictions regarding the future trade relationship between the two largest economies- USA and China. Such predictions are expected to help further research investigations on trade and political economy. The author believes that the trade relationship between these two countries is not only important for them but also for many medium and smaller economies that are inter-linked or somehow associated with such a relationship. The paper has been divided into some sections. First of all, the author has highlighted the background of the US-China trade war. In the next two sections (2 and 3), he has highlighted some tentative directions of this trade war under the newly elected US President Joe Biden for the next three and half years. The next section (4) has discussed the origin of the trade war between USA and China. Section 5 has discussed the tentative future of such a trade war. Section 6 has highlighted

the implications, research gap and further scope for the study. The section also concludes the paper.

2. Tensions will likely to persist

So far, observing the Biden's approach, the economic analysts predict that the political tensions will persist between the US and Chinese counterparts having an obvious impact on the bilateral trade relations (Boylan et al. 2020; The Guardian, October 25, 2020). President Biden has emphasized that prevailing tariffs on the Chinese products and technologies (Mostly imposed by the former President) will be kept in place for now. On the other hand, Beijing has also declared to maintain duties on some imports from USA. Talks began with US Trade spokesperson Katherine Tai and Chinese Vice Premier Liu He holding a virtual meeting to discuss about matters where both sides said they discussed the significance of the trade relationship between the two countries (forexcrunch.com). In the meantime, a Chinese think-tank reported that the Biden administration is unlikely to remove tariffs on Chinese goods in the short term.

Meanwhile, on June 3, 2021, the US President Joe Biden issued a new executive order banning US investment into Chinese firms with alleged ties to defense or surveillance technology sectors. The new order expands on an earlier Trump-era blacklist and hits 59 Chinese firms, including the communications giant Huawei. Many of the newly targeted companies are subsidiaries and affiliates of major state-owned Chinese companies and businesses named on the earlier blacklist of 31 Chinese firms. The US investors will be banned from buying or selling publicly traded securities in targeted companies, starting from August 2, 2021, when the new order takes effect (china-briefing.com).

To deteriorate the scenario more, the US Senate of Foreign Relations Committee has approved the Strategic Competition Act of 2021, signaling bipartisan agreement on orienting the US policy towards being more belligerent in efforts to contradict China. The Strategic Competition Act of 2021 was amended to offer more aid to Africa and Latin America to oppose China's financial aid to these countries, allowing superior funding for the US

technology industries, and strengthen the US International Development Finance Corp to fight against the China Development Bank, which has played an instrumental role in Beijing's signature Belt and Road Initiative. The bill is expected to pass at the Senate and House of Representatives due to broad bipartisan support (china-briefing.com).

However, one positive aspect for the Chinese side is that the Biden administration is extending tariff exclusions on about 99 categories of medical products from China until September 30, 2021 in order to support the fight against COVID-19, according to the notice released by the Office of the United State Trade Representative (USTR). The exclusion covers an extensive variety of items from medical masks and gloves to blood pressure cuff sleeves and X-ray tables. The former tariff exclusion extension on these medical products under the Trump administration's 'Section 301' tariffs was set to descend on March 31, 2021(china-briefing.com).

3. Will Biden follow the same path as his predecessor?

However, as a more realistic person than his former counterpart Donald Trump, President Joe Biden is expected to be more focused and practical regarding the US-China trade tension. According to McNeal, a senior policy analyst at Longview Global, the Biden team clearly understands the complicated interlinks of trade and commerce between the two powerful economies and is expected to be more justifiable and predictable in indentifying and managing the issues and concerns considering the interests of both parties. Such identification and management are expected to be more practical and less destructive (cnbc.com).

Considering the trade volume between the two countries, negotiations with Beijing will be a top priority for the newly elected Biden administration. The new administration is expected to review Trump's lingering policies, including duties on Chinese steel, aluminum goods and consumer goods. Therefore, although the new US administration will mostly follow the footprints of the former one, the policies and actions are expected to be more practical and justifiable than the previous administration as the prediction of the author.

4. Trade war: Where it began?

The trade conflict between the US and China has had a direct effect on some of the world's economic players. Although these two countries are attacking each other with declarations and have involved in a trade war; the relationship between the two countries need to be defined on the basis of relationship because they still need each other.

The US requires China as a global source of low-wage labor as well as a market for marketing American products whereas China requires the United States as an investor on its companies as well as a market for marketing Chinese products known for their low-cost. What makes these two countries to be so aggressive to each another? To answer the question, we need to go back to the time when this trade war started.

Donald Trump, a successful businessman who owns enterprises and corporations all over the world became the 45th President of the United States, succeeding Barak Obama. Trump adopted a protectionism policy in order to shield the US economy from what he referred to as the “robbed by China.” Trump released a law stating that all steel and aluminum products entering the US market from Europe, China, Canada, and Mexico would be subject to 25% and 10% tariffs respectively (Hosain & Hossain, 2019). Very obviously, being outraged, China imposed retaliated tariff policy on significant exporting goods such as automobile components, agriculture and fishery products, manufactured in the US.

In addition to the tariff impose, the former US president Trump expressly demanded that the TikTok and WeChat apps be prohibited from running in the United States. We know that these two technologies are very common in the larger population. Giant corporations, such as Huawei, did not also survived from Trump's “rampage,” with the Chinese telecommunications giant accused of leaking US national security data to China through Huawei's contract with the US security authorities (Hosain, 2019). As a result, many US firms were forced to cancel contracts with Huawei or face sanctions. Google is one of the companies impacted by this contract termination, which means that all Huawei smartphone devices manufactured in 2019 and after will lack any of Google's services such as the Google Play Store, Gmail, and YouTube.

Amid tough trade negotiations between the US and China, COVID-19 pandemic also affected the bilateral relationship. The US domestic pressure to contain the pandemic led Trump to accuse China of being the virus spread source. As a consequence, Trump put the US-China future relations at stake with his “China’s Virus” accusation. Besides, the US absence from World Health Organization (WHO) during the Trump administration along the pandemic raised a new opportunity for China to expand its influence. China used the COVID-19 pandemic issue as an opportunity rather than crisis.

China’s significant success in controlling the pandemic also made the Chinese administration confident in facing the US accusations. Meanwhile, the US administration’s failure to combat the pandemic under Trump increasingly threatened its supremacy in the world and obviously to China. Moreover, the US dependence on overcoming COVID-19 required relations from many parties, including China, made its position a little bit weaker as a superpower.

5. Sino-US trade war: The future

Many experts from the US and China hoped that President Joe Biden will be willing to “soften” the United States’ stance on the trade war with China. After his inauguration on January 20, 2021, Biden made many contacts with Beijing to address a variety of issues, one of which was the continuation of the trade war. The US and China agreed to meet in Anchorage, Alaska, on March 18-20, 2021, to discuss this issue. The meeting produced no bright spots in the escalation of the US-China trade war, but rather posed many questions concerning the foreign policy of both countries.

The Biden administration emphasized that it does not plan to eliminate various regulations passed during the Trump administration’s term regarding the trade war with China, but it also does not intend to employ the same negotiation strategies as the Trump administration, which seemed to be very offensive. Besides, the Biden administration need to be careful, since if Biden prioritizes domestic challenges, China has room to push its agendas, including in the field of technology and territorial issues. Furthermore, the Biden administration’s policy has shifted from imposing tariffs on China to investing

in industries that Biden believes are less competitive with China, such as nanotechnology and communication networks.

Will this trade war enter a new chapter in the Biden presidency, where the relationship with China will be more ‘calm’ and the trade war can be ended, or can it accelerate and maintain the stance as during the previous president’s presidency? Only time can answer such tricky but important questions. But it can be certainly said that a longer trade war between these two economic giants will only injure the world economy and bring no benefit for not only to US and China but also to other countries.

6. Conclusion

The trade war between the US and China has ushered in a new age in the global economy, one in which China is going ahead to replace the United States’ status as a world economic force, something that the United States fears. The door to investment is being opened as broad as possible, the private sector is being encouraged to participate (Under rigid government oversight, of course), the cost of living is being raised and the defense spending is being expanded. Today, we can see how the Chinese economy is advancing, becoming the world’s second largest economy after the US, selling goods all over the world to challenge the United States’ status and even having the world’s largest military after the United States. The rise of China is what the US is really scared of. After initially dismissing China’s problem as insignificant, the US under the Trump administration took China and President Xi Jinping’s problems seriously by starting a trade war that is still underway.

In conclusion, a full blown trade war between the US and China will not benefit any party but both parties might run the risk of losing in a substantial manner. In this paper, the author has made a general prediction that the conflict will persist during the Joe Biden administration although it might not be as aggressive as the former one. In the final remark, the author urges the policymakers of both the countries particularly the US ones to reconsider such hostile tariff policies based on the long run mutual welfare effects rather than thinking with short sighted vision.

The paper is an attempt to predict the future trade relationship between USA and China under the Joe Biden administration. As the author, I believe that this theoretical prediction can guide the upcoming researchers in further predicting the trade models and empirical analysis regarding the two largest trading nations of the world. It is the first paper that has concentrated on such trade relationship under the new US administration. Additionally, the policymakers and the business firms can get some clues in making their trade policies based on the tentative future US-China trade relationship. Some other economies that are closely related to either of the country (USA or China) can take the benefits from such a relationship. As for example, countries like Iran and Cuba can and should try to strengthen the trade relationship with both the countries and if possible, can take the role of negotiators.

In this paper, the author has tried theoretically to make predictions regarding tentative future trade relationship between USA and China. The paper is solely based on secondary information where the author has not used any empirical data. The author suggests the interested academicians to make empirical investigations through the use of cross-sectional and longitudinal data.

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