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# ***China-United States Trade in the Long Term. Implications for the World Economy***

**Abstract.** The aim of this chapter is to present the historical paths and determinants of the development of China (P.R.C.)-United States (U.S.) trade against the background of their bilateral relations. The essay discusses the origins and consequences of China's opening up and then moves forward to consider the evolution of its trade relations with the U.S.. This encompasses China's accession to the WTO, implications of the 2007/8+ global financial crisis for these relations, as well as the global impact of the COVID-19 pandemic. This discussion is accompanied by an analysis of the political environment that led to the opening of China's economic relations with the U.S. in 1978, including earlier political contacts and negotiations. Evolution of the China-U.S. trade balance, the growing P.R.C. export surplus as well as P.R.C. and U.S. trade policies are then considered as the source of increasing global current account imbalances and, consequently, the trade war between these two countries. The 2019–2021 sub-period has also been scrutinised to highlight the global economic effects of COVID-19 and its impact on international trade as well as P.R.C.-U.S. bilateral economic relations. The discussion in this essay is presented within a framework of the four following interrelated issues: the process of the opening up of the Chinese economy and the role of America, sources of international payment disequilibrium, the China-U.S. trade war, and the impact of COVID-19 on international and U.S.-China trade. It concludes with the key role of multilateral cooperation as a crucial factor to fight growing protectionism in international trade.

**Keywords:** China (P.R.C.), United States (U.S.), world economy, international trade, trade policy, trade balance, market transformation, international payment disequilibrium, COVID-19, trade war

**JEL classification:** F13, F21, F41, F51, O19, O24, P33

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## **1. Introduction**

To understand China — U.S. long-term trade relations, including the COVID-19 period and trade war, their analysis must be put in a historical context. This requires taking a broad perspective on long-term trends in China-U.S. economic relations, acknowledging the key role that the U.S. has played in the development of China's economy and foreign trade after 1978, including China's accession to the WTO.

Furthermore, more recent developments, and in particular the U.S.-China Economic and Trade Agreement concluded in February 2020, require attention as their protectionist nature can be regarded as a factor limiting the further development of China-U.S. trade

relations. This could also affect their WTO trade partners. These historical as well as more recent events set the stage for viewing the effects of COVID-19 on China-U.S. trade relations.

This chapter, both in its theoretical and empirical layers, mainly applies the analytical-descriptive method, but also uses the normative when the author shares his conclusions and opinions. Comparative analysis was used in commenting on the historical path of China's development, its long term economic relations with the U.S. economy and their implications for the global economy. This was done bearing in mind political factors and the changing geopolitical environment.

The focus of the analytical section is predominantly on trade in goods, as this plays a key role in the build-up of China's export surplus, which consequently leads to a widening of the international payment disequilibrium. Therefore, the bilateral trade balance and the factors shaping it in the long term are analysed. It is argued that its growing imbalance in favour of China has substantially contributed to international imbalances of payments and consequently to the P.R.C.-USA trade war.

While theoretically and methodologically the chapter is located in the area of international economics, application of an interdisciplinary approach and analysing how changing patterns of global political relations increasingly affect international economic relations is the key contribution of this chapter. In this context, the author builds on prior research on the opening mechanism of the Chinese economy, the specifics of its market transformation, theoretical and practical aspects of international payment imbalances as well as factors and determinants of China-U.S. economic relations within the changing pattern of the world economy and global political environment.

## **2. China's departure from the autarkic development model**

Defining the economic essence of opening up the economy in the process of transformation, in this case China's, and considering the open development strategy it pursued within this framework, requires prior reference to the autarkic economy model, specific to a planned economy. As a criterion distinguishing these two models, the presented concept of opening up the economy adopts foreign trade functions, respectively, *passive* for the autarkic model (essential imports vs. exports of surpluses) and *active* for the open model in which import becomes a factor adjusting the structure of national income to the needs of economic development, and export serves to discount the benefits of the economies. In the case of China, this results in a corresponding shift in trade balance from an import surplus to an export surplus. This is accompanied by the accumulation of foreign exchange reserves (Starzyk, 2009).

The autarkic model of development resulted in extensive development of the Chinese economy until the end of the 1970s, without its integration into the international divi-

sion of labour, while taking into account criteria of international specialisation based on Ricardian comparative cost theory, and through the use of the appropriate foreign economic policy tools to stimulate and rationalise foreign trade flows. Flows of production factors were virtually non-existent. Capital imports were rare and only took place in the form of investment loans granted by socialist countries, especially the USSR (until the end of the 1960s).

In such a model, also typical for the other communist planned economies, there is no assumption of an economically justified relationship between internal prices and export and import prices, which distorts the accounting of foreign trade efficiency. The problem has already been pointed out by Szczepanik, author of the first scientific analysis of China's balance of payments. This analysis shows that the part of the balance of payments for 1950–1960 that is best documented by Chinese statistics is the balance of trade in goods divided into market economies (“Non-Communist countries”) and planned economies (“Communist Countries”). In 1950–1952, China's trade with the former was virtually balanced with a negligible export surplus. In 1950, a small export surplus in trade with the United States, Canada and Western Europe helped to offset the negative balance of trade with other East Asian countries. Interestingly, Szczepanik begins his analysis, finished in 1962, with a thesis treating China as a developing country (Szczepanik, 1962, p. 113).

The objective of the import function, and this is where the analysis of the autarkic economy model should start, is to reduce purchases of goods necessary for the internal market, while the objective of the export function is to balance imports through the sale of production surpluses. The possibility of using imports as a stimulus for the industrialisation of the economy and discounting benefits of increasing scale of production through exports is therefore not assumed. Thus, there is no component in this model regarding the transformative function of foreign trade enabling an adjustment of national income in relation to the developmental needs of the economy. In addition, no assumption has been made regarding the efficiency function of foreign trade, externalized in value added in the form of growing supplies of goods and services increasing the international competitiveness of the economy (Starzyk, 2009).

The Chinese economy operated according to the autarkic model from the creation of the P.R.C. in 1949 until the political opening in 1978, which is regarded as the beginning of China's economic transformation. Its initiating impulse was an economic opening coupled with a political one, accompanied by a new accessibility to trade with the U.S. and other capitalist countries.

It should be emphasised that the beginning of the Chinese market transformation is directly dependent on political factors. The 3<sup>rd</sup> Chinese Communist Party Plenum held in December 1978, which announced a programme for the modernisation of the economy, opening up to the world and allowing the entry of foreign investment, was

a political and economic turning point in China (Starzyk, 1988). The political decisions of this plenum marked a fundamental shift in China's geopolitical concept of international economic relations. The political preference for Third World countries was abandoned and replaced by the development of economic relations with all countries irrespective of their political system, with all the economic benefits that derive from an open economy, with no consideration of ideological or political conditions in mind (Starzyk, 1987).

The key factor that accelerated China's economic transformation was establishing political relations with the U.S. The visit of the U.S. president, Richard Nixon, to China in February 1972 was a turning point in the then political situation of both countries, which was generally characterized by mutual distrust. On the one hand, its main importance lies in the political opening of the way for diplomatic relations, both bilateral and, as was evident in the period following the visit, multilateral relations. In a joint communiqué the P.R.C. and the U.S. confirmed the principles of normalizing bilateral relations, but also expressed separate positions on important global issues, including Taiwan (Joint Communiqué, 2021). In 1973, the U.S. government established a liaison office in Beijing, which in 1979 was transformed into the U.S. embassy. This happened after the U.S. (J. Carter's administration) recognized in December 1978 the state authorities of the P.R.C. as the legal government of the P.R.C. and, as a result, established official diplomatic relations with the P.R.C. in 1979 (the so-called second joint communiqué). At the same time, the J. Carter administration suspended diplomatic relations with the Republic of China (Taiwan). In order to maintain American interests in Taiwan, as well as to ensure Taiwan's security, the U.S. congress passed the Taiwan Relations Act in April 1979. The recognition of the P.R.C. and the establishment of diplomatic relations at the embassy level had far-reaching geopolitical implications and afterwards impacts on trade. In particular, this affected the perception of China by countries within the U.S. sphere of influence and common political interests. Following the example of the U.S., diplomatic relations were established by, among others, Germany, the United Kingdom and Japan. It should be mentioned that the P.R.C. conducted intensive diplomacy during this period, regardless of relations with the U.S. In the 1970s, the P.R.C. established official diplomatic relations with a large number of countries in Africa, Latin America, the Middle East and Southeast Asia.

### **3. The nature of Chinese market transformation**

Market transformation, along with globalisation and regionalisation, is among the main processes shaping the modern world economy and its shifts. It has encompassed the national economies of the former communist states, whose combined population is now

over 40% of the world's population. A key position among them is occupied by China (approx. 19,5% of current global population).

The Chinese case suggests that market transition is possible without a parallel transformation of the political system. The opposite case is that of Central European Economies, where systemic political and institutional changes initiated the market transition processes. Thus, China represents a specific model of market transition, *the socialist market transition*. Its main objective, the rise of economic efficiency, has been achieved by gradually introducing market mechanisms into the planned economy. Hence with regard to its main objective, the rise of economic efficiency, there is no substantial difference as compared to the capitalist model of transition applied by Central and Eastern European countries (CEE).

The Chinese pattern of transition can be called gradual, where the main socio-economic and political objective is to build a market economy while adhering to the single-party authoritarian political system (Chinese capitalism). It has fundamental implications for the very process of market transformation, making it gradual without a clear formulation of systemic goals at the outset of the process (Starzyk, 2018). In consequence, the Chinese market transformation develops throughout the course of two liberalization processes, which have not been synchronized as in the case of CEE. The first process (external liberalization), has been ongoing from the very beginning of transition (1978) when foreign trade began to be liberated, thus allowing greater flow of goods and services, as well as the import of new technologies thanks to political decisions to open the economy to foreign capital and technology. Some five years later this was followed by decentralization of economic decisions giving room for the gradual building of market mechanisms. This was coupled with substantial abolishment of price and trade controls, as well as the privatization of state enterprises. Thus, in the case of China, so called internal liberalization occurs as a secondary issue as compared to external liberalization gradualism.

Despite this specific sequence of transition priorities, which determines the nature of the gradual model of transformation, the main goal of the Chinese economic transition, the rise of economic efficiency, is being realized — a fact reflected by increased GDP, technological change, internal and external equilibrium, international competitiveness and wealth.

One of the main prerequisites (preconditions) for Chinese market transformation is the move away from an autarkic model of development to an open market model, the essence of which is the opening up of the economy, which can be defined as the process of linking the development of a given economy with the world economy in order to increase economic efficiency and in this way international competitiveness leading to a higher position in the world economy.

## 4. Opening up of the Chinese economy

The concept of opening up an economy differs from that of an economy's openness; the former has a dynamic dimension, the latter a static one. However, these concepts are interrelated and are characterised by similar quantitative economic indicators.

The concept *economy openness* shows the state of an economy's foreign linkages. It is defined by a series of quantitative indicators illustrating the relationship between foreign trade and other aggregates of an economy. In international economics, it is defined as the share of foreign trade in GDP (exports + imports / GDP), which most generally defines the place of foreign trade in an economy. In the case of China, this indicator was 33.6% in 2017, which placed China among the open economy countries given the size of its GDP (NBSC, 2017). Additional indicators more closely defining the openness of the economy include e.g. export and import income rates, which show the ratio of exports and imports to GDP.

The concept *opening up the economy* defines an economic process of linking the development pattern of a given economy with those of the world economy through appropriately influenced investment processes, while taking into account foreign supply and demand, in order to increase economic efficiency manifested in GDP growth, technical progress, external and internal balance, increased competitiveness and, as a result — increased prosperity. Thus, the phenomenon of the opening up of the economy is dynamic in nature and gravitates towards the notion of its development and internationalisation, as it involves growth and the qualitative transformation of an economy in conjunction with foreign trade flows that influence investment processes and, as a result, the dynamics and structure of GDP (Starzyk, 2009). In the author's opinion this process has now enabled China to occupy the second position in the world economy.

There are a number of economic indicators specifying opening up of the economy which include income elasticities of exports and imports. In the case of China, the foreign trade volume grew faster than GDP, the elasticity indices were higher than 1, which signifies an increase in the share of foreign trade in GDP and indicates the opening up of the economy. Another indicator specifying opening up of the economy is the increasing level of exports and imports per capita. In 1978, the value of merchandise exports per capita in China was approx. 10 billion USD. Two years later, in 1980, it was already almost double that — 18 billion USD, and it continued to increase in subsequent years (USD: 1985 — 26, 1990 — 55, 2000 — 197, 2007 — 923, 2008 — 1082. At that time, China is assumed to have surpassed the indicator value qualifying a country as an open economy) (Starzyk, 2009). Between 1978 and 2017 China's foreign trade grew on average by 14.1% annually, much faster than elsewhere (Li & Jiang, 2018).

Taking into account the criterion of balance of trade, three phases in the opening up of the Chinese economy can be distinguished: pro-import phase; intermediate phase;

pro-export phase. The pro-import phase of the opening up of the economy is characterised by an increase in economic turnover, especially faster imports, leading, on the one hand, to an increase in production and economic efficiency thanks to technology transfer (mainly through production cooperation, FDI in particular). However, on the other hand, it tends to create an import surplus. This was the case in China between 1978 and 1989. The second phase of economic opening up, the *intermediate phase*, is characterised by the achievement of an equilibrium trade balance, which took place between 1990 and 1995. The third phase of economic opening up, the pro-export phase, has been characterised, since the mid-1990s, by a sustained trade balance surplus which encouraged China to further liberalise its trade policy and to be more open in its foreign economic policy.

In the third phase of economy opening the pro-export phase ( $Ex > Im$ ), we see the predominance of liberalising elements in foreign economic policy. This is, on one hand, a logical consequence of export expansion, and on the other, a deepening of integration processes of the Chinese economy into the world economy, marked by China's accession to the WTO in December 2001. The accession led to the liberalisation of foreign trade enabling all Chinese companies to conduct foreign trade, reducing tariffs and eliminating or simplifying non-tariff barriers, such as import licenses and quotas (Li & Jiang, 2018). Despite trade liberalisation, China's integration in the world economy was accompanied by an accumulation of foreign exchange reserves as a result of a sustained export surplus. In 2015, these amounted to USD 3.4 trillion, which at the time represented 29.08% of global foreign exchange reserves (Skopiec, 2017, p. 47). This favourable situation for the Chinese economy, however, has a negative impact on the further development of the global economy, especially when we consider the problem of international payment disequilibrium, an intensification of which was observed after the 2007/8+ financial crisis.

## **5. China-U.S. trade balance and the international payment disequilibrium**

Since the turn of the century, there has been a rise in protectionist tendencies in the world economy, resulting in a slowdown in international trade and, consequently, in globalisation processes. One of the main sources of this phenomenon have been growing international payments imbalances, which have intensified in the wake of the 2007/8+ global financial crisis. This is a result of the structural changes in the world economy, which have led to the emergence of a group of surplus economies on the one hand and deficit economies on the other.

### 5.1. Surplus economies as a source of international payment disequilibrium

The group of surplus economies currently consists primarily of the emerging economies of East Asia. They pursue, especially China, export oriented development strategy and are thus characterised by growing export surpluses and growing foreign exchange reserves. These economies, referred to as surplus economies, use protectionist instruments, mainly those classified as strategic trade policy, which lead to an increase in their international competitiveness. This currently applies to China in particular. On the other hand, in parallel, a group of deficit economies emerged at the turn of the century, among which are the U.S. and some Western European countries, which, in turn, are characterised by growing trade balance deficits and consequently, current account deficits.

This phenomenon is accompanied by a shift in the development of the world economy away from highly developed countries, especially the U.S. and Western Europe, to the emerging economies of Asia, especially China and, since the turn of the century, India and the Gulf countries. Following Brzezinski (2008, p. 113), this constitutes, along with common global problems, such as poverty and terrorism, the most important phenomenon affecting the transformation and prospects of the contemporary world economy (as seen from the perspective of the first decade of the 21<sup>st</sup> century).

Following the trends generally outlined above, a major problem for the development of international trade is the breakdown of the balance of payments in the triangular trade relationship: U.S. – East Asia (mainly China) – Western Europe. This situation, worsening since the turn of the century, was to become one of the main causes of the 2007/8+ global financial crisis (Starzyk, 2012).

A return to an international balance of payments as a condition for avoiding another crisis therefore requires an increase in the competitiveness of developed economies and a corresponding increase in their exports. Thus, it is also associated with an increase in imports of surplus economies, especially China, e.g. through RMB revaluation as postulated by the U.S. It should be noted in this context that the trade and exchange rate policies pursued by China after its WTO membership in 2001 have been described as mercantilist and a driving force of currency war (Brunet & Guichard, 2011). In addition, they have also become a significant cause of the China-U.S. trade war (see section 6 of this chapter).

The complexity of the current breakdown in the international balance of payments and the rise in protectionism associated with it also lies in the fact that the perpetrators of this breakdown are, on the one hand, the deficit developed economies, which have traditionally played a dominant role in the international transfer of goods and services and factors of production while also playing a key role in the technological transformation of the world economy and in shaping the mechanisms of international economic interdependence. On the other hand there are the “catching-up” surplus emerging economies, especially China, which already account for approx. 50% of world GDP and similarly



of international trade. In this respect we are dealing with two comparable economic potentials which currently begin to compete contrary to their complementarity in the past. This situation, and the consequent increase in trade protectionism poses a new research challenge for economic science, especially international economics. Due to its geopolitical dimension, it is also becoming an important issue for political science and international relations in particular.

## 5.2. The Nature of international payment disequilibrium and its phases

The concept of international payment disequilibrium, the opposite to international payment equilibrium<sup>1</sup>, is generally understood as a state of international economic relations that makes it impossible in the long term to really balance the international payments of a group of economies with a significant share of world trade (which hereinafter will be referred to as leading economies). These currently include both developed economies and some emerging economies, mainly in East Asia. They currently account for around 80% of world trade. The leaders are the U.S. and China, respectively. It is therefore important to emphasise that large economies, both surplus and deficit ones, are responsible for international payment disequilibrium, although the role of the latter is much greater, as it is the trigger and determinant of the phases of international payment disequilibrium.

We will refer to the phenomenon of unbalanced trade balances in the group of leading economies, treated in this paper as a source of international payment disequilibrium and the rise of protectionism (both to deficit economies, i.e. with a growing negative balance of trade over the long term, and to surplus economies, i.e. with a positive balance). It can be argued that the latter are now more than ever responsible for the breakdown of the international payment equilibrium. Thus, it can be assumed that the abandonment of protectionist practices by deficit economies, especially the U.S., will depend on corresponding changes in the trade policy of emerging economies, especially China.

Depending on the size and dynamics of the build-up of negative and, respectively, positive trade balances of leading economies, analysing the causes and consequences of the global financial crisis 2007/8+, five phases of the build-up of international payment disequilibrium can be distinguished, i.e.: *shaking up* – *collapse* – *breaking up* – *crisis* – *recovery* (Starzyk, 2012). Here, manifestations of protectionism occurring in the individual phases are discussed in the context of the current realities of the global economy and China-U.S. trade in particular, including the trade war.

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<sup>1</sup> The concept of international payment equilibrium in the Polish economic literature was first formulated by Zbigniew Kamecki, who defined it as a state of international economic relations enabling the real balancing of the current accounts of the economies responsible for the processes of the world economy (Kamecki, Söldaczuk, & Sierpiński, 1964, p. 384).

The first phase, *shaking up*, is conjunctural in nature. It is manifested by some countries developing a negative while others a positive balance of trade with an increasing tendency towards growing trade deficit by the former. In a market economy, such a situation is a normal phenomenon and is related to the autonomous nature of transactions within the current account. It does not yet constitute a reason for the application of protectionist trade policy tools. This phase occurred in the mid-1990s in the form of a growing trade balance deficit, especially of the U.S. and some European economies, being accompanied by a growing export surplus of some Asian emerging economies, especially China, but also South Korea, Taiwan, Singapore and Hong Kong. This leads to an increase in their official foreign exchange reserves.

The next phase of international payment disequilibrium, *collapse*, occurs when the *shaking up* phase lasts beyond the middle term and is accompanied by a growing negative balance of trade of other deficit economies. This then represents the beginning of conflicting interests of deficit and surplus economies in the areas of trade in goods, services and financial transactions, resulting in an increased use by deficit economies of protectionist measures, primarily non-tariff ones. This occurred in the first half of the decade of the 21<sup>st</sup> century and is particularly true of the U.S., whose trade deficit in 2005 amounted to approximately USD 800 billion (this represented approx. 7% of U.S. GDP and more the 2% of world GDP at the time).

It is important to emphasise that the next, *break-up* phase also requires an adequate response from the governments of surplus economies.<sup>2</sup> It then becomes necessary to implement appropriate trade policy tools on both the export and import side. In the case of exports, this mainly involves the reduction of export subsidies and other strategic trade policy tools. In the absence of an adequate response in the break-up phase of the international balance of payments by both deficit and surplus economies and the IMF, a breakdown occurs (which occurred in the second half of the first decade of the 21<sup>st</sup> century and was instrumental in the outbreak of the global financial crisis). In this context, Lutkowski (2006) raised a question concerning the scale of tensions generated by such a large and long-lasting trade imbalance, especially between the U.S. and China but also other East Asian and oil countries that the current international monetary system can resist. He stressed the importance of this problem, as it is a question of preserving the systematic ability to facilitate trade and capital exchanges and promote global economic growth. As he argued, this condition would not be met if maintaining the existing rules of the system came at the expense of high exchange rate volatility, volatile and high

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<sup>2</sup>This was pointed out much earlier by Rączkowski (1984), e.g. his consideration of the responsibility both of deficit and surplus countries for bringing the balance of payments into equilibrium. When this is linked to international payment disequilibrium it becomes clear that it is in the interest of both deficit and surplus economies to remove the above distortions, especially if they involve leading economies. It is the surplus economies which should also shoulder the burden of adjustment processes (Rączkowski, 1984, p. 261).

interest rates, recession and stunted growth with accompanying deflation or inflation (Lutkowski, 2006).

In a scenario where the *break-up* phase was sustained over a longer period of time by the U.S. or other open economies there would be a financial crisis which, if not resolved, could evolve into a global economic crisis covering the spheres of production, exchange and consumption more and more deeply and spreading to all other economies open to international economic exchange.

Change in the exchange rate policy of surplus economies could be important for the recovery from the *break up* phase of the international payment disequilibrium. This mainly concerns China and the revaluation of the RMB, which could result in an increase in imports and a relative reduction in the country's exports. It is worth noting that the undervaluation of the Chinese currency and the related currency war was one of hot topics discussed in the wake of the 2007/8+ financial crisis (The Economist, 2010). At the time, the author of this chapter wrote about the problem — “the ongoing currency war may lead to a deepening of protectionist phenomena, leading to economic nationalism. This, in turn, could lead to a trade war, which would manifest itself not only in a decline in trade, but also in capital, which would undercut the foundations of East Asian development and could lead to another global economic crisis triggered by the emergence of new perturbations on global financial markets” (Starzyk, 2012, p. 544). Today, it is not too late to try to prevent this situation from materialising. It is essential to forge a U.S.-Chinese consensus on the RMB exchange rate to curb the effects of a currency war, as well as to attempt to renegotiate the China-U.S. trade agreement (from February 2020).

## 6. U.S.-China trade war: the trade balance perspective

Foreign trade is a tool for economic expansion, including geopolitical expansion. In this context, trade cannot be seen through the usual, simplified trade-tariff/non-tariff barrier relationship. Recently, trade expansion has been increasingly used to achieve long-term strategic policy objectives. Building competitive advantages in trade, under certain economic conditions, requires the implementation of a variety of other instruments, the purpose and scope of which is not always visible at first glance. For example, the policy stimulating the development of joint ventures had a completely different dimension and goals in the case of CEE countries and China. In the first case, the aim was, in particular, to stimulate domestic production, while in the second it was often about acquiring or pursuing an unfriendly take-over of technology and then developing it for the exclusive use of Chinese controlled companies (and consequently weakening the competitive advantages of the country that developed the original technology).

Analysing the real problems raised by exporters, it can be concluded that equal market access remains only in the sphere of economic theory, often in limited relation with free trade agreements and WTO membership. These regulations focus on trade issues, which in fact are shaped by a number of other regulations and policies on which trade arrangements have a limited impact. Returning to the previous example of the joint venture, a policy in this area can be implemented in the conditions of well functioning intellectual property protection regulations or in the absence of such regulations (USTR, 2022). As a result, both political intentions and economic effects, seemingly of the same concept, can be extremely different.

Thus, one should see the U.S.-China trade war in this broader context and bear in mind that it did not start with the presidency of Donald Trump, but was proceeding with varying degrees of intensity for many years. It has both a local dimension, i.e. affecting the economies of the U.S. and China, but also a regional one, affecting economic relations in other countries and regions.

One of Donald Trump's main presidential campaign slogans was to protect American jobs against excessive imports from China and to achieve a balancing of U.S.-China trade. Just one year after being sworn in as president, the Trump administration launched protectionist measures to reduce imports from China in order to improve the trade balance with that country and to develop its own manufacturing and related job creation (Hanson, 2021).

The trade war between the U.S. and China intensified at the beginning of 2018. In February 2018, the U.S. increased tariffs on imports from China of products such as photovoltaic panels and white goods (the value of these imports is approximately USD 50 billion). In the following months, decisions to increase tariffs on further products took place affecting an estimated \$436 billion of Chinese products (Cooray & Panilevel, 2022). In response, China also raised tariffs on selected U.S. products estimated to be valued \$160 billion (Cooray & Panilevel, 2022). These actions proceeded with varying intensity and effects until the end of 2020. The effect of the increased tariffs was partly offset by changes in their tariff policies towards other countries. In order to normalise mutual trade relations, the two sides decided to sign an agreement, which came into force in February 2020.

The Economic and Trade Agreement Between the Government of the United States of America and the Government of the People's Republic of China (2021) was a culmination of the policy pursued towards China by the Donald Trump administration. The agreement is unique in its nature, given both the mechanism of mutual commitments and its material scope. In its commercial essence, it is a manifestation of protectionism. Below are examples of some of the elements it contains:

- ◆ Trade expansion — e.g. China's commitment to import certain goods and services by no less than USD 200 billion over the next two years;

- ◆ Agriculture — reducing various types of trade barriers and China's commitment to purchase a certain value and category of products;
- ◆ Technology transfer — basing technology transfer on voluntary and market principles, e.g. China's move away from regulations forcing technology transfer by U.S. companies operating in China to Chinese companies;
- ◆ Intellectual property — e.g. China's commitment to measures aimed at reducing IPR infringements;
- ◆ Macroeconomic policy and exchange rate issues — e.g. China's commitment not to use targeted devaluations of RMB to impair the competitiveness of U.S. imports. With regard to the exchange rate, it is worth noting that in August 2019, the U.S. Treasury Department, based on its investigation, identified China as an exchange rate manipulator, the first time this has happened since the mid-1990s. (U.S. Department of the Treasury, 2019)

A significant doubt with respect to the impact of the implementation of the agreement in question relates to the question of whether it is able to stem the build-up of international imbalances of payments by changing the unfavourable balance of trade for the U.S. Providing a competent answer to such a generally formulated question requires further research beyond the scope of this paper.

The objectives of the Agreement, however, have not yet been met. Based on an analysis of the Peterson Institute for International Economics, which is tracking U.S.-China trade in relation to the agreed obligations, China purchased only 57% of the total U.S. goods and services exports over 2020–21 that it had committed to buy (Brown, 2022).

The trade war between the USA and China cannot be perceived as a bilateral conflict as it brings about worldwide consequences reflected in a decrease of international trade and global GDP. Taken together with the COVID-19 pandemic it constitutes a major challenge for international community (Żukrowska, 2020).

## **7. COVID-19 and China-United States trade**

### **7.1. COVID-19 global effects**

In December 2019, The World Health Organisation (WHO) issued a warning about a new virus attacking the respiratory tract that had emerged in China. By its slowing down and disorganisation of international trade, the COVID-19 pandemic has negatively affected the world economy, i.e. globalisation, regionalisation and market transformation. It has caused the collapse of industrial production on a global scale and disrupted the system of logistics and financial linkages (Brilliant, Danzig & Oppenheimer, 2021).

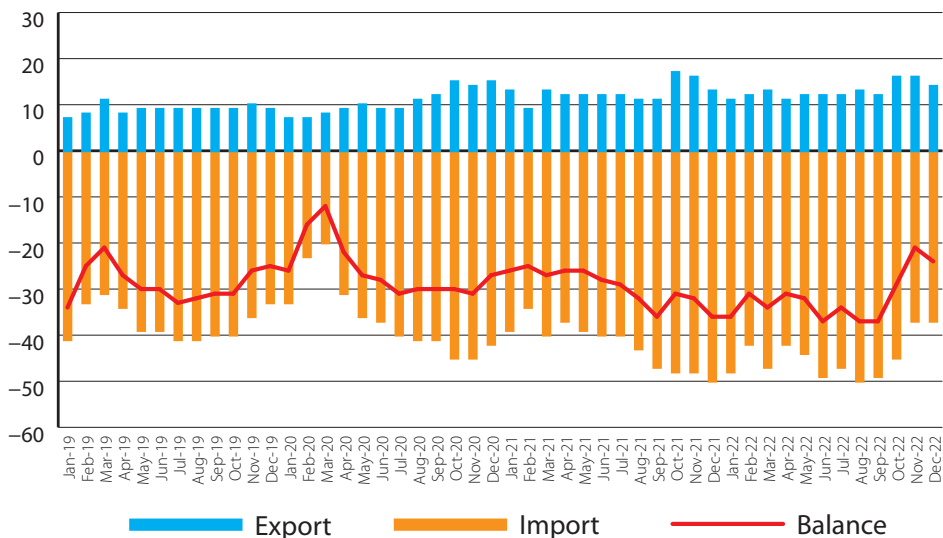
According to the World Trade Organisation (wto), there was a 5.3% decline in the volume of global merchandise trade in 2020 (compared to 2015). The value of global exports in 2020 fell by 7.5% to USD 17.6 trillion. Merchandise imports saw a 7.6% decline in value to USD 17.8 trillion. The impact of the pandemic on global trade became particularly evident in the second quarter of 2020, when the volume of global merchandise trade declined by 15% compared to the second quarter of 2019 (in the second quarter of 2020, compared to the second quarter of 2019, the value of exports decreased by 21.3% and imports by 20.6%).

In the second half of 2020, as a result of the decline in infections and as a result of vaccination, there was a loosening of the restrictions imposed, which was reflected among other things, in an increase in the value of exports and imports in the third and fourth quarters of 2020. In the third quarter of 2020, the value of exports increased by 20.8% compared to the second quarter and stood at USD 4.5 trillion. Meanwhile, imports increased by 18.3% to USD 4.5 trillion. The fourth quarter of 2020 saw a further increase in the value of global merchandise trade compared to the previous quarter, with exports increasing by 10.0%, to a volume of USD 4.9 trillion, and imports increasing by 9.7% to USD 5.0 trillion.

## 7.2. COVID-19 and U.S.-China trade

The COVID-19 pandemic has significantly impacted the U.S.-China trade. China-U.S. trade in 2020 saw a stagnation in trade against 2019.

Figure 1. U.S.-China trade monthly trends for the period 2019–2022, USD billion



Source: U.S. Census, Trade in Goods with China, own elaboration.

The figure below illustrates u.s.-China trade on a monthly basis. It can be seen that the years 2022 and 2021 represent growth in total trade compared both to 2020 and 2019 (in some months well above the corresponding period in 2019). In 2022, despite trade restriction measures implemented both by the u.s. and China, the u.s. trade deficit with China further deepened.

During the COVID-19 pandemic there was a decline in the trade balance deficit, which may be related to the decline in u.s. imports from China, although it is premature to draw broader conclusions given the short period of the analysis in question. In addition, bilateral trade has been affected by other significant factors, including trade restrictions (trade war), the war in Ukraine (2022) and the revival of global trade (2021/2022).

Table 1. U.S.-China trade yearly trends for the period 2019–2022, USD billion

	Export	Import	Turnover (Export + Import)	Balance	Balance as % of turnover
2019	106,5	449,1	555,6	−342,6	−61,7%
2020	124,5	432,7	557,2	−308,1	−55,3%
2021	151,4	504,9	656,4	−353,5	−53,9%
2022	153,8	536,8	690,6	−382,9	−55,4%

Source: U.S. Census, Trade in Goods with China; own elaboration.

To identify sectors which share of the u.s.-China trade changed most, a detailed analysis has been made based on SITC 3-digits trade data (in total 263 product categories).

Table 2 presents a summary of the analysis.

In the first step, shares in trade were calculated. Then, in the second step, based on variation of share in trade turnover in 2019 and 2022, sectors with significant shares in trade turnover and sectors with the largest changes in shares in total import and export were identified. Within such a defined data set it can be concluded that, exports to China: sectors with the largest share increase include maize and oil seeds, decrease — aircraft & associated equipment; imports from China: sectors with the largest share increase include toys and sporting goods; decrease — office and telecommunications equipment.

Thus, despite certain set-backs in the import of hi-tech imports from China, driven by security motives rather than the pandemic, the value of trade between the countries is rising as other categories of goods are compensating for this decrease. It is yet to be seen if this rise can be sustained in the long-term. Some authors (Elia et al. 2021; Cooray & Palanivel, 2022) suggest that supply chain problems caused by COVID-19 will lead to increased diversification of international sourcing which might be further exacerbated by current geopolitical uncertainty.

It is to be remembered that the tensions between the u.s. and China, although heightened by COVID-19 are part of a broader power game between the two countries which

has political and human rights connotations (Cooray & Palanivel, 2022) and as such will not end with the pandemic.

Table 2. Structure of U.S. exports and imports with China, % (calculated based on USD billion, % is the share in total export /or import/), selected product categories

Sector	Export				Import			
	2019	2020	2021	2022	2019	2020	2021	2022
Aircraft & associated equipment	9,8%	3,5%	3,1%	3,6%	0,1%	0,1%	0,1%	0,0%
Articles of apparel of textile fabrics	0,1%	0,0%	0,0%	0,0%	1,9%	2,2%	2,1%	1,6%
Crude oil	2,8%	5,5%	4,0%	4,5%	0,0%	0,0%	0,0%	0,0%
Electrical machinery and apparatus	0,7%	1,0%	0,6%	0,6%	3,1%	3,3%	3,0%	3,5%
Furniture & bedding accessories	0,1%	0,1%	0,1%	0,1%	4,9%	4,5%	4,0%	4,1%
Maize (not including sweet corn) unmilled	0,1%	1,0%	3,3%	3,4%	0,0%	0,0%	0,0%	0,0%
Medicaments (including veterinary medicaments)	1,5%	2,0%	1,6%	1,8%	0,1%	0,1%	0,2%	0,2%
Medicinal products, except medicaments	2,6%	1,9%	2,9%	4,4%	0,5%	0,5%	0,6%	0,8%
Miscellaneous chemical products	2,3%	2,1%	2,0%	2,2%	0,3%	0,3%	0,5%	0,4%
Office machines	0,2%	0,2%	0,2%	0,1%	1,2%	1,2%	0,7%	0,6%
Oil seeds and oleaginous fruit	7,6%	11,5%	9,4%	11,7%	0,0%	0,0%	0,0%	0,0%
Telecommunications equipment	1,2%	0,9%	0,8%	0,7%	15,2%	15,3%	14,3%	14,1%
Television receivers	0,0%	0,0%	0,0%	0,0%	2,3%	2,5%	1,9%	1,8%
Toys and sporting goods	0,2%	0,1%	0,1%	0,1%	5,1%	5,7%	6,1%	7,5%

Source: U.S. Census, Standard International Trade Classification (SITC, 3-digits), own elaboration.

## 8. Conclusions

The COVID-19 pandemic disrupted the globalisation processes of the world economy, caused a decline in world GDP and disorganised international trade. In conjunction with the China-U.S. trade war, it has also hampered economic relations between these two major players in the world economy and has also been the cause of growing protectionism in China-U.S. trade and thus in international trade. If the trade war continues, it will pose a serious threat to the development of international trade and the continued growth of the global economy. It should, however, be taken into account that despite the applied protectionism measures China-U.S. trade has steadily grown. This could be interpreted as a weakness of the applied measures, including the weakness of U.S. policymakers to influence China to change its trade policy.

Moving away from confrontation in China-U.S. economic relations and embracing greater international cooperation in the economic and social areas affected by the pandemic is becoming a sine qua non for the continuation of globalisation processes in the world economy and international business.



Nevertheless, disruptions in supply chains caused by both protectionist measures and the COVID-19 pandemic are initiating a chain reaction in the area of strategic trade policy (Ambroziak, 2021). In the U.S., China and other countries, we can observe intensification of actions aimed at supporting the expansion of domestic industry, including through the relocation to the home country of existing production infrastructure located in other countries. This is often done as part of the so-called building resilient supply chains and striving for economic self-sufficiency. As a result, as also argued by Ciravegna and Michailova (2022) we can observe deglobalisation tendencies.

Due to the complexity of trade relations, it is currently difficult to clearly determine whether global imbalances are deepening and whether they are permanent. In this context, analysing imbalances at both the aggregate level and the bilateral level is important. The example analysed in the most detail in this paper is P.R.C.-U.S., but there are also many smaller countries where the trade deficit has a relatively much larger dimension and impact on their economies.

One such example is Poland, where on an aggregate level, imports have been more or less equal to exports in recent years, but the situation has been completely different on the bilateral level — in relation to China. According to Eurostat data, for the period 2020–2021 in current EUR prices: imports of goods from China increased by 4.5x; exports to China increased by 2.5x; the trade deficit increased by 4.9x; the ratio of exports to imports decreased from 18% to 10%. In such a situation both — the much lower competitiveness of the Polish economy compared to the U.S., as well as limited possibilities of Poland to influence the EU's trade policy in relation to China, raise important questions, e.g. — are we dealing with a permanent imbalance trend? To what extent does the trade deficit with China weaken the overall competitiveness of economies like Poland? How will it impact them in the long term?

China's gradually growing presence in developing countries as reflected by initiatives, such as the Belt and Road Initiative or the Asian Infrastructure Investment Bank, may allow China to continue its quest for power despite pressures from the U.S. or other Western countries triggered by human rights or political concerns (Cooray & Palanivel, 2022)

As noted by *The Economist* (The road, 2022), China is reorganising its global *Belt and Road* infrastructure programme to focus on greener projects. The United States and other members of the G7 have launched a rival programme, *the Partnership for Global Infrastructure and Investment* (June 2022), which aims to encourage investment in eco-friendly infrastructure in developing countries by 2027. Climate collaboration between the United States and China would help bring down the costs of green technology by integrating supply chains, and allow more efficient planning and financing of climate related projects in poor countries.

Due to the significant impact of global financial imbalances on the world economy, further research is required. This relates, however, to both to large and small economies.

One of the areas of research that is crucial for assessing the cost-benefits of trade is the question of ownership of the means of production, in particular capital. Currently, statistical analyses are carried out in relation to country A — country B, i.e. companies registered in country A — companies registered in country B. This analysis completely disregards the nationality of the investors who own these entities. Part of this issue is covered by analyses of incomes within the balance of payments analysis framework, but this seems to be insufficient. In particular, this applies to countries with a large share of foreign capital, facing the challenges of building domestic capital and domestic competitive advantages.

Other further research areas may include, e.g., the impact on international intra-branch division of labour, international competitiveness, foreign and international trade policy. Bearing in mind the politically necessary trade restrictions imposed on Russia, it may be worth investigating any similarities with the U.S.-P.R.C. trade war with regard to the impact on global financial imbalances.

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