

Chapter 4

USA–China Trade Wars: Back to Protectionism in World Trade

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ABSTRACT

This chapter analyzes the trade war between the United States of America and China. The United States of America and China are the two biggest trade leaders in the world. The United States supported China for its integration to world trade. The United States accused China of pursuing unfair trade policies. The United States increased tariffs against Chinese imports and China undertook retaliation measures against the United States' tariff increases. The two countries entered a period of a trade war and they started to implement protectionist policies on each other. These protectionist policies between the United States and China are seen as trade wars and could affect the world trade liberalization adversely. As they are trade partners too, it is better for both countries to end this war and to reach an agreement, because trade liberalization efforts could fail.

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INTRODUCTION

China has become one of the largest economies in the world in recent years. China has been a member of the World Trade Organization on December 11, 2001, and the United States of America (USA) supported China to become a member of the organization. However, due to the tensions between China and the USA, the President of the United States asserted that their support for China's membership in the organization was a mistake. The USA accused China of stealing American technology and trade secrets and of causing unfair competition. Finally, the USA began to impose sanctions on China because the President of the USA argued that China's trade policy was harming American high-tech industries.

The efforts to liberalize the international trade, which began under the leadership of the United States, have changed direction recently, and the protectionist policies against China have been brought to the forefront by the American leadership. The increase in the tariffs that America and China pursued to each other has been called trade wars and they are considered to be negative for the world trade liberalization.

In this research, the role of China in the world trade after its membership of the World Trade Organization and also the trade relations between the United States and China will be examined. The source of the trade wars between China and the United States, and the sanctions imposed by the USA and China's retaliation measures will be analyzed. In addition, the trade disputes between America and China, which are carried to the World Trade Organization, will be mentioned. Finally, the possible impact of these protectionist measures on the liberalization of the world trade will be examined.

BACKGROUND

There are limited studies about the USA and China trade war, and they are published online. These studies and the approaches of the authors are summarized below.

Chunding Li, Chuantian He and Chuangwei Lin analyzed the effects of possible China-USA trade wars by using a multi-country global general equilibrium (GE) model in their article "Economic Impacts of the Possible China-USA Trade War". According to their simulation results, China will be hurt by the trade tensions with the United States. The United States can benefit from its trade policies against China, but may lose if China applies retaliation measures. America has a stronger bargaining power than China. According to the author, trade wars between China and America may hit most of the countries, distort the world trade, and reduce the world GDP.

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