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Recent trade friction between the United States and China could escalate into all-out trade war between the two largest world economies. It reflects a deeper strategic competition between Washington and Beijing. Source: Gage Skidmore, *flickr*, <https://www.flickr.com/photos/gageskidmore/29302245561/>; Ministry of Commerce, PRC, *Ministry of Commerce, PRC*, <http://english.mofcom.gov.cn/article/zt_19da/>.

The Impact of U.S.-China Trade Friction on Both Countries and the Global Economy

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Recent trade friction between the United States and China could escalate into all-out trade war between the two largest world economies. Its impact is regional and global, while at the same time it reflects a deeper strategic competition between Washington and Beijing.

President Trump announced on April 6 that the U.S. would levy a 25% tariff on 1,300 Chinese industrial technology products worth US$50 billion in imports. The move came one day after Beijing announced duties on American goods, mostly food, worth US$3 billion. This itself was a response to the US government levying tariffs on steel and aluminum imports earlier. Beijing immediately retaliated, announcing 25% tariffs on US$50 billion of American goods in a tit-for-tat move.

The Trump administration's move toward trade wrestling with China is not a sentimental decision but a well-calculated plan. It was more of a reaction to Beijing's passivism in responding to Trump's requests last April when the Chinese leader Xi Jinping first met with the American President in Mara Lago, Florida. Not only did the first U.S.-China Economic Dialogue last July produce no concrete progress, the Chinese also failed to come up with a concrete ploy to address a huge trade surplus with Washington. That has triggered Trump's decision to launch a trade war with Xi.

More importantly, what lies behind Trump's series of announcements to increase tariffs on Chinese produces is a strategic calculation to minimize Beijing's technological breakthroughs in the near future.

As explained in Trump's first National Security Strategy, China steals proprietary technology and early-stage ideas from U.S. companies, thereby undercutting American prosperity and hijacking the "innovation of free societies." In other words, Trump is targeting Chinese trade practices impacting technology transfer, intellectual property and innovation. The administration's Section 301 report identifies four areas of specific concern, including Chinese theft of cutting-edge technologies and trade secrets from the U.S. private sector.

The U.S. Trade Representative's report also detailed the Chinese regime of forced technology transfer, implemented through formal and informal practices and policies. The result of this is that, through foreign investment restrictions, U.S. companies seeking to operate in China must engage in a joint venture with a Chinese partner, most often a state-owned enterprises. In selected sectors, such as aerospace and information technology, Chinese regulations require, that the terms of the joint venture include that the Chinese party maintain the controlling interest. The controlling pressure is reinforced through Chinese administrative and licensing requirements. This imbalance in the joint venture relationship, according to the USTR's accusation, results in a direct or indirect demand for technology transfer from U.S. companies in order to gain market access in China.

Those regulations are discriminatory because they let Chinese companies "free ride" on their U.S. counterparts' research and development in any imported technology transfer arrangement.

Moreover, the Chinese government directs, and unfairly pushes forward, systematic investment in, and acquisition of, U.S. companies by Chinese companies, as a means to obtain intellectual property and to generate large-scale technology transfer in industries deemed important by state industrial plans.

Finally, the USTR report states that the Chinese government has conducted and supported cyber intrusions into U.S. commercial networks targeting confidential business information held by U.S. firms.

Therefore, the items listed in Trump Administration's Section 301 report mostly include the sectors of aerospace, information technology, robotics, electric vehicles, biotechnological and medical devices and machinery. Those sectors are at the heart of China's pilot program of the so-called "Chinese-made 2025." In this regard, the ongoing trade friction between Washington and Beijing has gone beyond normal trade competition. It has become a strategic competition for the future smart manufacturing industry. As the National Security Strategy report clearly states, China has become a "strategic competitor" of the U.S. not only in military and security terms, but also in trade and technological thinking.

Despite the evolution of such a trade war, there are potential losers and winners. South Korea, which counts both China and the United States among its largest trading partners, would be one of the biggest casualties if a trade war breaks out. Hong Kong and Singapore, which rely greatly on the Chinese manufacturing sector, would also suffer if trade tensions escalate. Since Beijing also listed automobiles as items of retaliation, German car makers such as BMW and Mercedes are affected because both companies manufacture many cars in the U.S. and export them to China.

However, some regions could benefit from a drop in the export of US goods. For instance, China was the largest buyer of soybeans from the United States last year. Given that China's agricultural import needs are generally inelastic, it could replace US soybeans with beans from Latin America. Brazil could be the winner in this regard. On the other hand, China's proposed tariffs on fossil fuel imports from the United States could also see the Middle East gaining a greater share of Chinese trade.

For Taiwan, any escalation in trade tensions that leads to a significant fall in US imports from China would have a sizable impact, not just on China, but on other countries such as Taiwan which export a lot of intermediate goods to China. Taiwan was worried that electronic communications devices like smart phones and tablets, with components originating in China, might be affected by the next round of tariffs. However, these items have not been included in the current tariff list, which has brought some measure of relief.

The above fact was drawn from a poll conducted by the Taiwan External Trade Development Council (TAITRA) following the outbreak of U.S.-China trade friction. More than 50 Taiwanese companies in China responded with the majority indicating that such a trade war will not have a big impact.

But even if that is the case, Taiwan will have to explore alternative trade strategies to diversify its foreign markets. The trade war has also proved that the current policy of deepening Taiwan's relations with the "New Southbound Policy" countries is an effective plan to avoid overdependence on the Chinese market and to reduce potential impact from U.S.-China trade confrontation.

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