THE UNITED STATES-CHINA TRADE WAR: EMPIRICAL ASSESSMENT

Abstract

This paper aims to explore the US-China trade war by looking at variaous issues sorrounding the US-China trade relation. The US-China trade war had been imminent since January 2018, meritorioisly commenced on 6 July 2018, which is still ongoing. The US imposed sanctions on various Chinesse goods which was counter by the Chinnesse side also. Both side have felt the effect of the trade war though China felt the impact mlre than US. Though, both nations have recently held positive trade talks which leads to the first phase of negotiation the trade war is still ongoing. If the partnership between the United states and China collapses, this will also end up harming the global economy severely since they are crucial cornerstones of the international economy.

Keywords: United States, China, Trade War, Tarriffs

1. Introduction

The trade war between United States and China between 2018 and 2020 drew tremendous interest from policy makers, scholars, companies and investors around the globe. On 5th May 2019, US President Trump declared that the prior tariffs of 10% imposed on US$ 200 billion of Chinese goods will be raised to 25% and extended on 10 May 2019. On 29 June 2019, US President Trump and Chinese President Xi Jinping decided to a trade war ceasefire at the G20 meeting in Osaka conducted. Previous tariffs stay in force, but no fresh tariffs are to be introduced "temporarily" amidst relaunched trade negotiations. This implies that the United States trade war with China, which was on the rise since January 2018, basically began on 6 July 2018 9 [1], which had settled down since December 2018 until April 2019, has now launched its second phase. As [1] observed, the major picture of China's US trade war is threefold. Firstly, from the perspective of US lawmakers and stakeholders, there are several causes for concern, such as China's supposed systematic cyber-espionage against United States firms; largely ineffective record on intellectual property rights protection; unequal policies on innovation; inconsistent record on the execution of its commitments under the World Trade Organization; systematic use of industrial strategies to encourage and protect government-favoured industries; and interventionist measures to control the currency value [2]. Secondly, it is fragment of the Trump’s foreign agenda, such as coercive initiatives, renegotiation or removal from agreements, and attempts to import defense, so the trade war between US and China is part of the strategy of Trump administration to repair US trade issues. Thirdly, there are hot discussions on whether rising China would aim to adjust the liberal world order rules and query the hegemon of US [3]. Likewise, the nationalists in the US see China as an imminent challenge to US stability and priorities [4]. This trade war triggered severe disruptions to the economy of China. Although a few reports have looked at the impact of this trade war on China on the basis of hypothetical scenarios, [1] looked at the actual consequences supported by evidence from Google Trend and other data sets between 2018 and 2020. While accurate statistics on jobs are not accessible, it has been documented that chinese manufacturers are reacting to the danger of a trade war by lowering prices, staff and expenditure [5] thousands of workers have lost their jobs in the Chinese tech industry [6] and, in reaction, the government of China has decided to give cash to workers who are laid off by their employers. In reaction to the trade war blow to the Chinese economy, the government of China has taken a varity of economic steps to reduce the negative consequences. The key goal of this analysis is to evaluate the the United States-China trade war. Section 2 discuss trade war by looking at several points such as foreign direct investment, trade war shoot, actions towards the beginning of the trade war, the impact of the trade war on the Currencies of both countries. Section 3 entails discussion and policy recommendations.

2. Trade War between the Us and China From 2012-2019

Trade between the US and China is part of a complex economic relationship. The Unites states and China resumed diplomatic ties in 1979 signed a bilateral trade agreement. This gave rise to swift trade growth between the two countries. Furthermore, from $4 billion in 1979, exports and imports increased to over $600 billion in 2017 [7]. Among the trade practices and their effects, which the US claims are unfair, are the growing trade deficit, the theft of intellectual property, and the forced transfer of American technology to China. On the presidential campaign trail of 2016, then-Republican candidate Donald Trump used strong rhetoric to define his position on US-China trade. Citing a 2016 deficit for the US of more than US$360 billion unfair in trade pertaining to United States trade with China.[1] Trump promised to reduce liability if appointed, via mass trade negotiations with China. In 2018, with an unprecedented escalation of tariffs toward Chinese imports, this manifesto pledge was put on the

[1] Retrieved 12 August 2020 https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china

front burner. The below is a list of important events that led to trade tensions between the United States and China from 2018 to 2020.

Table 1: The US- China Relationship Summary: Opening Trade War Shots	
Date	Events
US-China Trade War 2019	
3 March	US tariffs are levied on all imports of steel and aluminum.
22 March	In reaction to China's "unfair business practices," the United States introduces comprehensive tariffs.
23 March	China imposed tariff on US exports amounting to US$ 3 billion.
2 April	There are threats by China to impose duties on fresh fruits, nuts, wine and pork.
3 April	The US imposes tariffs on engineering imports totaling $50 billion.
4 April	China intends to place 25% tariffs on 106 US imports, namely soybeans, chemicals and aircraft. China also lodges a petition at the World Trade Organization (WTO) against the United States.
5 April	US President Trump releases a statement labeling China's tariffs "inequitable retribution," suggesting an extra tariff of US$ 100 billion.
17 April	China raises import tariffs of sorghum costing US$ 1bn.
3 May	Disruption of trade talks in Beijing.
20 May	There is a consensus; the US promises to delay tariffs and China provides a substantial increase in the acquisition of US products.
29 May	The US declares proposals to impose tariffs on Chinese imports worth 50 billion dollars.
19 June	US President Donald Trump proposes tariffs on Chinese exports at US$ 200 billion, potentially with yet another US$ 200 billion to follow.
6 July	US tariffs on Chinese imports amounting to 34 billion dollars take effect.
18 Sept	The US launched 10% tariff on $200 billion Chinese product thus rising to 25% by the end of December 2018.
5 May	Tariffs of 10% imposed on $200 billion valued goods from would be raised to 25% on May 10
29 June	Trump and Xi Jinping agreed to a "truce"
1 October	Tariffs increased from 25% to 30% on the current Chinese products valued $250 billion.

15 Dec	Tariff increased from 10% to 15% on the existing products valued at $300 billion
US-China Trade War 2019	
May 13	China announces tariff hikes on US products
August 4	US declares China currency manipulator
August 23	China announces US$75 billion in tariffs on US goods
Sep 4	China lodges WTO tariff case against US
Sep 19	US-China mid-level trade talks in Washington
Oct 112019	Us announced phase 1 deal delay increase for Chinese goods
Nov 8 2019	US and China tariff talk rollback
Dec 2019	China release second set of US products to be excluded from additional tariff
US-China Trade War 2020	
Jan 20	The US and China signed the phase 1 deal
Feb 21	China unveil tariff exemption lists for US imports
May 8	US reaffirm their phase 1 trade deal commitments
May 20	China announces new list of US commodities excluded from tariff
August 11	Hong-Kong's exports to be labelled 'made in china'
August 15	US and China Postpone trade deal review
August 19	US suspends reciprocal tax exemption on Hong Kong shipping firms
August 2020	China says trade deal review to be rescheduled

Source: BBC Research, (2020)

The US-China trade war has a tremendous potential to outraged worldwide markets ' relative stability. Their bilateral trade is expected to reach US$ 640 billion per year, a colossal amount [8]. If new tariffs of hundreds of billions come into force, this partnership will develop substantially. From farming to engineering, markets as consumers and business interests on both hands are expected to be adversely affected in order to survive. In brief, the capacity for redefining international relations is to destabilize the current US-China trade connection. The outcome will be volatility of the currency rate.

3.1. The Trade Deficit

Since China joined the World Trade Organization (WTO) in 2001, she has developed into becoming a powerhouse for export in an ever-wider range of industries by using relatively low-cost labour, large economies of scale, industry policies, and the manufacturing capabilities of its neighbouring countries. China's trade power size, combined with its protectionist policies, has contributed to the rise of bilateral trade with Unites States. Table 1 highlights Unites States export and import with China with its balances.

Table 2: US trading relation with China and its balance

Years	Export (millions US$)	Import (millions US$)	Balances (millions US$)
2012	110,516.6	425,6193.1	-315,102.5
2013	121,746.2	440,430.0	-318,683.8
2014	123,657.2	468,474.9	-344,817.7
2015	115,873.4	483,201.7	-367,328.3
2016	115,545.5	462,542.0	-346,996.5
2017	129,893.6	505,470.0	-375,576.4
2018	120,341.4	539,503.4	-419,162.0
2019	106,447.3	451,651.4	-345, 600

Sources: US International Trade Data, (2020)

Trade relations between United States and China have been highly significant and are an important element in strengthening bilateral relations and increasing the level of cooperation. From 2012 to 2016, during these periods was Barack Obama Administration was relection as the United State President. The US foreign policy's approach with China during this period was to be centered on stability, and transparency. This has definitely led to trade with China to be expanded. On an annual basis, the trade relationship between these two countries has been increasing. According to [9], the US and China trade goods and services were estimated to be about $536.1 billion. Unites States export was about $110.5billion while import amounted to $425.6 billion, the trade balance was a deficit of $315.1 billion. Export of US to China have been increasing to about 4.5% with her import to China was about 8.6% increase in 2016 while the trade deficits were about 10.09% ([9]. This trade relation supports about 2.6 million jobs in the United States, which covers various industries. The US major challenge and growing concern is the increase in trade deficit's size. President Donald Trump's administration has labeled its policy with China as a great power competition (Jianqun, 2018). Unlike the previous administration, it's National Security Strategy (NSS) discussed China as a nation challenging

American's power, influence, and interests, attempting to erode American security and prosperity and try to weaken her security and prosperity. The Chinese Foreign Ministry responded to the NSS and advising the US to "stop the deliberate misrepresentation of the strategic intentions of China, and give up on outdated concepts such as the Cold War mentality and the zero-sum game". In an address by Vice President Mike Pence on China policy on October 4, 2018, accused China of "developing its manufacturing base at the expenses of its competitors, especially America, with a set of policies which are incompatible with free and fair trade" (Partington, 2018). He affirmed that Chinese security agencies "crafted the systematic robbery of American technology including advanced military plans" and that "the Communist Party of China is turning plowshares into swords on a huge scale through that the stolen technology" [10]. In defend of the Chinese, the Chinese's Foreign Ministry said, "China's development has been primarily due to the hard work done by the Chinese people and their mutually advantageous cooperation in countries around the world". China is also "pledged to join hands with the United States to work for non-conflict, non - confrontation, mutual respect and win-win cooperation". Trump's Administration has leveled its strongest criticism at China's economic practices, imposing several rounds of tariffs on imports from China to pressure China to change such practices [2]

3.2. Intellectual Property Rights (IPR) and Cybertheft

The absence of efficient IPR security is mentioned by US firms as one of China's biggest obstacles to conducting business. A study of the carried out by Glöckle & Würdemann [11] on theft of American Intellectual Property by China estimated that the losses of US by global IPR theft in China were up to 80% (or $240 billion) in 2016. The United States Customs and Border security recorded that the total number of falsified goods it captured in the FY2017 was about 78 percent from China and Hong Kong [12]. Chinese actors were described by the United States National Counterintelligence Office in 2011 as "the most active and tenacious victims of economic espionage in the world and as aggressive collectors of critical US information and technology on the business side" [13]. The United States department of Justice charged the state sponsored cyber espionage of 5 members of the Chinese People's Liberation Army for theft of proprietary information for government-owned companies. In September 2015, the two parties struck a deal on cyber safety during Chinese President Xi Jinping's State visit to the United

States, undertaking that neither country's government would conduct nor deliberately support theft of intellectual property for business and create a combined discussion on cybercrimes and related topics [14]. The US cybersecurity technology company Crowd strike, recognized China in October 2018 as the most prolific menace actor country-state in the first half of 2018. Chinese companies found themselves to be aimed intrusive against several sectors of the economy. In November 2018, Christopher Wray, FBI Director: "Our ideas, our innovations and our economic safety are not threatened by any nation more broadly or severely than China" [10]. At the Senate hearing, Assistant Attorney General John C. Demers said China was associated with over 90% of cases of economic spying by the Department of Justice and two-thirds of its business secrets from 2011 to 2018.

3.3. Industrial Policies

Many US-China trade tensions arise from China's incomplete transition to a market economy, including the use of industrial policies to support and protect domestic firms, especially state-owned enterprises (SOEs). Major Chinese government practices of concern to US stakeholders include subsidies, tax breaks, and low-cost loans given to Chinese firms; foreign trade and investment barriers; discriminatory intellectual property (IP) and technology policies; and technology transfer mandates. Several recently issued economic plans, such as the "Made in China 2025" plan, appear to indicate a sharply expanded government role in the economy. The Trump Administration has characterized such policies as "economic aggression." Some officials have expressed concerns that participation by Chinese firms in certain global supply chains, such as for information and communications technology products and services, could pose risks to US IP and national security interests (Jean, 2018).

3.4. Foreign Direct Investment (FDI)

Due to its high level of bilateral trade, US-China FDI flows are relatively small, though there is a differing estimate. The United States Bureau of Economic Analysis (BEA) is the official United States agency for the collection and reporting of FDI data. The BEA estimates China FDI's stock at 40 billion US dollars in the USA in 2017 and US FDI's stock in China at 108 billion US dollars in 2017[9]. Some analysts argue that the FDI measurement analysis of BEA is substantially below the current US-China FDI level, mainly because it does not cover all FDIs made by other countries, territories or tax havens, nor any mergers made by US foreign companies affiliates [15, 16]. The Rhodium Group (RG), a private consultancy, seeks to recognise FDIs by Chinese companies in the United States regardless of the location or source of the investment money. RG's US-China FDI data is far superior to that of BEA. For instance, RG calculates that China's FDI stock in the US is estimated to be 140 billion dollars by 2017, while its US FDI stock in China is estimated to be 256 billion dollars. RG reports that China's FDI flows to the US rose from 14.9 billion dollars in 2015, to 45.6 billion dollars in 2016, but dropped to 29.4 billion dollars in 2017 and 4.8 billion dollars in 2018 [17]. The downturn in Chinese FDIs to the US may represent Beijing's initiatives to cushion "illogical" capital outflows, as well as the Trump administration's increased scrutiny of the Chinese government's aims to achieve state-of-the-art. President Trump, for example, forbade the acquisition of the US firm Lattice Semiconductor Corporation in September 2017 by a group of investors with supposed links to the Chinese government [15]. The United States and China were the major trading partners of each other in 2018. Nevertheless, there has been a relatively low level of bilateral FDI. Chinese FDI in the United States has decreased since 2016 in the face of trade disputes, a US monitoring process with a newly expanded reach to audit some foreign investments for national security implications, and stricter Chinese capital outflow regulations. As per the United States Economic Analysis Bureau (BEA) [17], net in the United States, in 2018, FDI flows to China amounted to $7.6 billion (down 22.9% from 2017). Net flows of Chinese FDI to the United States are adverse (-$754 million, relative to $25.4 billion in 2016), while outflows surpassed inflows (e.g. divestments of assets). In contrast, the US stock in China, FDI amounted to $116.5 billion (up 8.3% from 2017), whereas in the United States, Chinese FDI amounted to $60.2 billion (up 3.7%) on the overall recipient ownership framework (China contributed for 1.4% of total U.S. FDI stocks in 2018, up from 0.05% in 2002). BEA also gathers financial data from US multinationals (MNEs) operating overseas. Figures for 2016 (the latest year available for figures) show that revenues by international subsidiaries of US companies in China totalled $463.5 billion (down 4.3 percent from 2015). After the UK ($676.7 billion) and Canada ($604.2 billion), China was the third biggest market for US affiliated companies overseas. However, Chinese US partners hired 2.1 million employees, paying $35.3 billion in salaries for jobs, and invested $3.5 billion on R&D. BEA also gathers financial data on investment abroad by US multinational companies (MNEs) [8].

FDI from China to USA

According to new data, Chinese FDI in the US crumbled for a second year in a row. According to independent researchers, the Rhodium Group, in 2018 the Chinese FDI in the US fell to just $4.8 billion, a huge decrease of $29 billion in 2017 and $46 billion in 2016. As shown by data from the Group, the 2018 figure represents a 90 percent collapse from 2016 and represents China's lowest direct investment since 2011 (Rhodium Group, 2019). The fall emerges in the midst of US-China trade unrest, and Beijing adds pressure to China's businesses to lower their world holdings and cut debt levels. According to the data, Chinese investors sold an astonishing 13 billion US dollars of assets, much of which was bought during an investment surge in 2015-2016. Including these divestitures, Rhodium Group reported that Chinese net US direct investment declined $8 billion in 2018 [18]. Indeed, the group said another 20 billion dollars are still awaiting in the divestments. In August 2018, China's largest private companies have put assets on sale: Anbang has put up some of its luxury hotels for sale in New York City, HNA has listed thousands of millions of dollars in assets for sale, 28 Liberty, and the Dalian Wanda Group is looking to sell its stakes at Iconic Entertainment. However, when direct investment falls drastically, Chinese-based venture capital financing to the US has reached a new record $3.1 billion [18]. In the meantime, Chinese investors remain in the last six years, as per the National Association of Realtors, the top foreign buyers, both in terms of units and the volume of US residential housing. The middle-class Chinese people have a lasting interest in the US market.

Figure 1: China FDI to USA

Source: BEA (2020)

FDI from USA to China

From the figure 2, and table 5, FDI from USA to China has been growing continually from 2012 to 2015. However, a fall was witnessed in 2016. From 2016 upward, a constant growth has been seen up to 2018. Investment from the United States increased by 124.6 per cent despite overall growth in China's foreign direct investment (FDI) slipping to 4.8 per cent to US$12.45 billion.

Figure 2: FDI from USA to China

Source: BEA, (2020)

3.3. Actions Towards the Beginning of the Trade War

On January 2018, the United States based on the decision of President Trump – began imposing tariffs on imported washing machines and solar panels. The tariffs' amount was set to 20% on the first 1.2 million washers and 50% of all subsequent imported washers in the following two years. Furthermore, a 30% tariff had to be imposed on solar panel components, with the rate declining over four years [19]. A second round of tariffs was announced on March 8, 2018 when President Trump ordered an imposition of 25% tariffs on imported steel and 10% on imported aluminum – to be taken into effect 15 days after the announcement, March 23. Canada and Mexico were the only countries not included in the list of nations that were to be tariffed [7]. On

June 15, President Trump declared in a short statement, that the United States would impose a 25% tariff on $50 billion worth of imports from China. Tariffs on $34 billion worth of products came into effect on July 6, and an additional $16 billion on August 23, with 279 goods' categories listed. These tariffs targeted goods related to China's strategic plan Made in China 2025 to dominate high-technology industries that would "drive future economic growth for China". Made in China 2025 with Belt and Road Initiative poses cornerstones of president's Xi global trade strategy. A list of $200 billion worth of additional products which were planned to be put under tariff already in September was published on July 11, 2018. This list includes over 6,000 items [20]. The USA had been contemplating the implementation of the new tariffs, which could be set on imported goods at a level of 10% or 25%, depending on the recommendation of the United States Trade Representative [11]. A new round of tariffs, if imposed, may touch up to 40% of the whole trade between Washington and Beijing. September 6, 2018 was established as a final day of the consultation period, and probably the most crucial point in the trade war between the two economical giants. President Trump told reporters, that "now we've added another US $200 billion. And I hate to say that, but behind that, there's another US $267 billion ready to go on short notice if I want. That totally changes the equation [21]

3.4. How Did China React to Tariffs Imposed on Them by USA?

In reply, China charged US imported products with ransom tariffs. However, the United States exports to China total $129.89 billion, approximately one third of China's exports to the United States. In March 2018, China initially played hard to tariff US$ 3 billion in response to tariffs for steel and aluminium, but later in April threatened to levy 25% on imports of 106 US products [22] Nevertheless, China has altered its strategy, since the US became bolder with its tariffs and no signs of backing down. China declared that import tariffs of motor vehicles would be halved at the end of April 2018 [5]. They provided to substantially increase purchases of US goods in May 2018 and envisaged purchasing more US coal in order to minimize the trade deficit. The United States, after all the offers and the application of the tariffs on products worth $34 billion in July 2018 and an extra $16 billion in August, had not backed off. The exact same reaction was given by China in relation to goods importing to China in the value of $50 billion.

3.5. Impact of the Imposed Tariffs on Market and Companies

Their effects on the market have varied since the tariffs were introduced. There have been robust revenues from the steel company because of tariffs already put in place by the administration, explained by Michael O'Rourke, Chief of Market Strategy in Jones Trading in Greenwich and Connecticut. It worries investors that it is wise to sell and earn profit with the intensifying trade war currently. The scenario was that the steel stocks on the US market had dropped. They rose in the wake of the tax on steel and aluminium on May 31, 2018, but were reduced two weeks later in June 2018 following a risk of imposing new duties [23]. New tariffs affect the United States Manufacturing companies in China. Many large American companies are changing their policies under the situations of trade wars, for example, Ford has agreed not to import from China the Ford Active model to the US. Apple Inc. remarked that it would damage its production and would increase the end product prices for the consumer [10]. Apple Inc. also stated on new tariffs imposed. In regards, tariffs were applied to Chinese and US markets in roughly similar ways. This pattern is evident from the fact that the US stocks of China were down by 3.2 percent, whereas the Chinese stock of the US was down 3.4 percent. The influence of tariffs is thus nearly equal on both markets.

3.6. Impact on the Currencies of the Both Rivalling Nations

Devaluation of the currency is one of the occurrences linked with trade wars. It is normal for trade war actors to depreciate their local currencies in order to alleviate the stress felt on the export industry. This mitigates the adverse influence of higher tariffs on goods and services, maintaining share of the market of foreign exports. In Japan, you will find a current example of this practice. The fiscal and monetary policy identified as “Abenomics”[2], modeled after Prime Minister Shinzo Abe, advocates a system of vigorous quantitative easing and adverse interbank lending rates[3]. For Japan's equity markets, the findings are good, but opponents quote this trend as systematic currency distortions. In the context of the US-China trade war, fall in the value of Chinese currency took place at the end of July 2018. The People's Bank of China set the benchmark rate for the Yuan Renminbi (CNY, RNB) at 6,7671 CNY to the US dollar (USD)

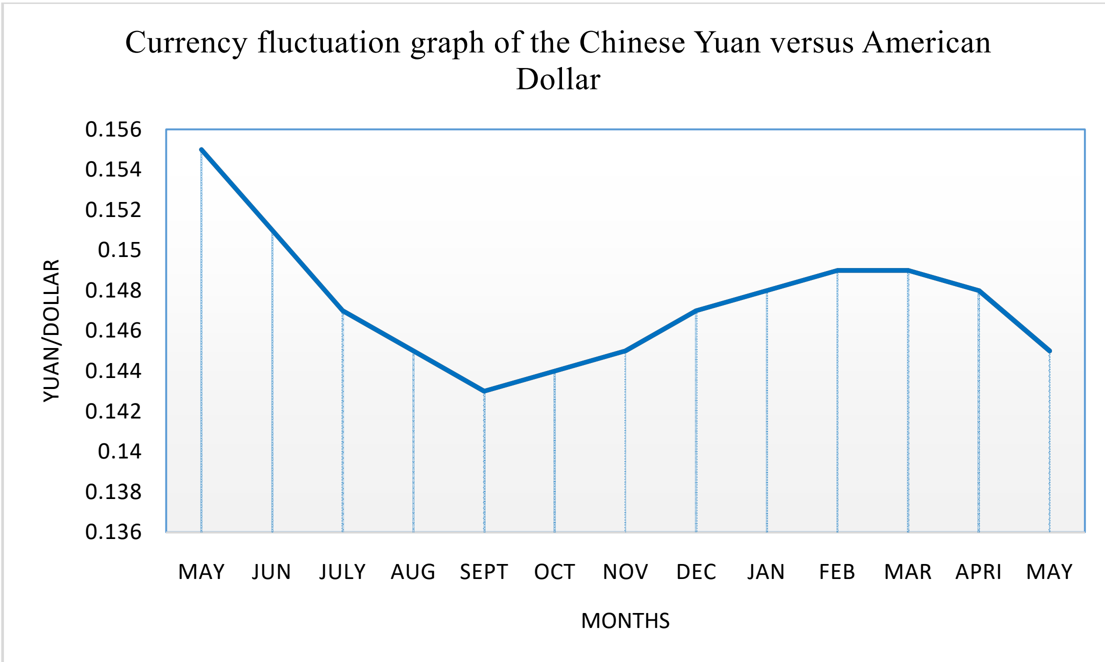
[2] Abenomics relates to the fiscal policies proposed by Shinzō Abe since before the national election in December 2012, which appointed Abe as Japan's Prime Minister for his presidential term. Abenomics is predicated upon the "three arrows" known as fiscal stimulus, monetary stimulus and economic reforms.

[3] https://www.cfr.org/backgrounder/abenomics-and-japanese-economy, accessed December 10 2019

following tariff declarations from both sides. The behavior was an immediate decrease of 0.9% from earlier levels. Soon after the transfer, the United States in 20 July 2018 President Donald Trump expressed his concern by tweeting: "China, the E.U. And many others have manipulated their currencies and lowering interest rates, whereas the US is picking up rates and the US dollar is picking up our great competitive advantage". Not a level playing field, as normal. The Dollar Index dropped further than 1% immediately after the tweet was sent. The grandstanding of the tit-for-tat trade war had a detrimental effect on both the CNY and USD, as traders awaited both currencies. China runs out of products for a much lower volume of US imports to be taxed. Therefore, it utilizes other approaches to exploit the US. One of those choices is the Chinese currency, Yuan. The Chinese Central Bank, which has been owned by the Chinese Government, controls the volatility in its assets. The Chinese government has consistently devalued its own currency against the US dollar since September 2018. Their possible explanation was to make China's exports affordable and thus, more competitive with American manufacturers. Chinese Premier Li Keqiang, though, demanded that Beijing did not intentionally weaken its currency to boost its export and was unintentional in the future to manipulate the yuan downstream. Even though it poses a risk to destabilize the Chinese financial system, weakening the Yuan against the US dollar almost eliminates the impact of tariffs on the Chinese economy [24]. With regard to the statement provided to CNBC by Tuart Oakley, who is Nomura's global head of foreign currency flow [4]. According to the statement by China chief economist Zhuang[5] in October 2019.

Figure 3: Currency fluctuation graph of the Chinese Yuan versus American Dollar

[4] He said that the yuan would keep trading above $7 per dollar although, analysts say, the United States and China handle to glue a temporary agreement. In past few months, as trade conflicts between Washington and Beijing have escalated, the Chinese currency, also known as the renminbi, has calmed.
[5] In addition, in order to reinforce the Chinese currency to a level below 7-yuan-per-dollar, the market will have to see indications that "the removal of established tariffs is being debated urgently



Source: World Bank, (2019)

The following graph shows that the US dollar is rising from the lowest level from 5 February 2018 to its highest level in the last 11 months of 9 May 2018. This substantial increase could be seen as the tariff announcement's side effect. Instead, it shows that the tariffs did not undermine the currency of the United States. The global currencies have been driven forward as trade frictions between the US and China have intensified. The perceived value of the dollar against the Chinese yuan, which remains at lows for several years, is of specific interest to several watchers. In September 2019, after slipping 3.8 percent against the US dollar in August, the yuan uploaded its largest monthly loss in 25 years. This dropped against the greenback still further, a weak year - to-date. The decrease for the yuan emerges on a tumultuous month's heels. In early August, China let all the yuan price fall beyond the psychologically important7-level versus the US dollar (Weir, 2019). That, in turn, triggered a backlash from the US Treasury and President Donald Trump calling the nation a pathological liar of currency. In terms of currency volatility, the US dollar has risen since before the heat of the war. Nevertheless, this trade war has no significant influence on the currency United States compared to the declining Chinese Yuan.

3. Conclusion

This thesis aimed at analyzing the US-China trade relation covering 8 years period (2012-2020) in order to answer the following research questions: What effect does the trade war have on their currencies? What impact does the trade war have on foreign direct investment pertaining to both countries? How has the intellectual property theft affect the relation between the two countries? What impact does the trade war have on the economy of both countries? This section gives a brief introduction on the background of the US-China trade relationship. Section two is focused on 'trade wars' between the US and China from 2012 to 2020. This segment gives a tabular and graphical representation of information in regards to trade between United States and China showing deficits on the part of United States and surplus pertaining to China. It also shows in tabular forms various tariffs imposed by each countries from 2018 to 2020. Furthermore, various concerns such as intellectual theft, currency manipulation, and unfair trade in relation to both countries were discussed. During the last 8 years, the trade relationship between the US and China had not been stable in nature. Influenced by significant differences in fundamental norms and values, cooperation proved to be difficult before the Bush administration took the term in 2001. According to official Chinese statistics, the total trade of goods increased from $80.48 billion in 2001 to $539 billion in 2018, thus growth of 6.7 times. Following official U.S. trade data, imports from China in 2018 accounted for 80.6% of the total trade ($539 billion), thus exports to China only account for 19.4% of the total trade ($120 billion). This immense difference in exports and imports creates a trade balance deficit for the US trade balance deficit increased from US$83.10 billion in 2001 to US$419billion in 2018. The rising trade deficit negatively affects US household debt. Furthermore, vast amount of US debt is being held by China. Ranking number one in foreign debt holding countries, China holds $1244.3 billion of US Treasury securities in 2014 [25]. The accumulated amount of US Treasury securities by China worries policymakers and economic analysists. The United States fear that it constitutes leverage for China and enables the country to influence e.g. foreign policymaking to its benefit by threatening to sell a great share of its holdings otherwise. This argument, criticizing the immense holdings of US Treasury securities, can however also discount the criticism: Besides harming its own export-driven economy, by damaging its biggest export market, selling a vast amount of debt security could result in a depreciation of the USD, leading to a decreased value of the remaining debt securities held by China. In 2018, the US had a trade deficit of $419 billion with China, as per US International Trade Statistics. Due to disagreement, trade war negotiations between both nations often failed. The intellectual property theft via the forced transfer of American technology to the Chinese has been one of the business practices that the United states considers to be unequal. According to [5], the economic impact of the trade war will peak in 2021 which will severely hurt many countries. Both nations have recently held positive trade talks in Washington in November despite the collapse of the previous trade talks. If the partnership between the United states and China collapses, this will also end up harming the global economy severely since they are crucial cornerstones of the international economy.

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