Review

Arising of Trade Disputes among the G20: Evaluation of US-China Trade Relations in the Context of World Trading System

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Abstract
Trade policy among the G20 has emerged as one of the challenges the group faces during the last decade after the 2008 global financial crisis. This paper aims at analyzing the current trade disputes between China and the United States and the efforts the G20 has taken to settle these disputes. The fundamental questions this study attempts to answer are as follows: (1) what the US–China trade dispute means for the world trading system? (2) what the G20 can do to prevent destructive trade wars? We confront this view by critically examining a large body of evidence on the effects of trade policy on economically important outcomes. We begin with a discussion of the role of G20 in stabilizing world economy. We show the G20’s recent economic and trade development challenges and measurements of trade policy and identification of its causal effects. We present the trade balance between the United States and China. We also illustrate the efforts made by the G20 in promoting the development of China–US trade cooperation. Data were collected from different sources. Data are collected from the World Bank, the World Trade Organization (WTO) publications, and the G20 summits’ reports. The results show that the United States has a trade deficit with China, and the global growth would be notably curtailed as investment and consumer spending fall back. The G20 should focus on supporting the WTO, being upfront about the mixed effects of trade and investment, and improving G20 measures to tackle protectionism.

Keywords: Trade policy; Retaliation; Trade escalation; Trade war; WTO.

1. INTRODUCTION
The study of trade policy is a matter of current interest for policy makers, regulators, and researchers; therefore, research on trade restriction among nations requires greater rigor and greater depth. On the basis of recent studies, this paper evaluates the trade disputes between China and the United States and analyses the trade policies adapted by the United States on some Chinese exports. The US goods trade deficit with China was $375.2 billion in 2017, an 8.1% increase ($28.2 billion) over 2016 (Office of the United States Trade Representative, 2018). However, US exports of services to China were an estimated $56.0 billion in 2017 and US imports were $17.6 billion. Sales of services in China by majority US-owned affiliates were $55.2 billion in 2015, while sales of services in the United States by majority China-owned firms were $5.7 billion. US foreign direct investment (FDI) in China (stock) was $92.5 billion in 2018, a 9.4% increase from 2015. US direct investment in China is led by manufacturing, wholesale trade, and nonbank holding companies (Handley and Limao, 2015). For these reasons, trade policy change is a major focus for the US new administration in imposing antidumping (AD) and countervailing duties (CVDs) against Chinese imports. I first present the US trade measures implications to China and the rest of the world. I then consider what role G20 can play to settle trade disputes between the United States and China, which would be an experience for future challenges.
Recently, the topic of trade balance has attracted considerable attention. Which wetness a shift in the focus of international trade research from liberalization the trade-to-trade protection and balance trade. Implicit in this development is the widespread view that trade policy no longer matters. The central scenario that we are primarily concerned about is restrictive measures taken by the United States against China that instigate a trade war. The United States has imposed tariffs on the import of solar cells and washing machines, and has multiple ongoing investigations into dumping and theft of intellectual property by China. There is a danger that these trade disputes will escalate into a full-blown trade war if China were to retaliate disproportionately. So far China has been more measured, launching, for example, an investigation into US sorghum imports.

In this paper, we aim to make several contributions. First, whereas previous research has focused on the role of the United States in taking the lead in pressing for new free-trade agreements and shaping the multilateral trade rules, we argue that researchers and policymakers should also consider what the G20 can do to prevent destructive trade wars. Second, we investigate what the US–China trade dispute means for the world trading system. Previous research has focused on the withdrawal of the United States from the Trans-Pacific Partnership (e.g., Helble, 2017; Sacerdoti, 2015; and Ezeani, 2011). However, we argue that these studies are narrowly focused and limited; research on evaluation and the trade agreement should consider whether the United States would renegotiate or withdraw from existing arrangements, including the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA), and to impose new tariffs on imports, particularly from China and Mexico.

Against this background, the questions that this study attempts to answer are follows: (1) what the US–China trade dispute means for the world trading system? (2) what the G20 can do to prevent destructive trade wars? This study is organized into five sections to provide a comprehensive picture of trade disputes between China and the United States. The following section discusses the recent economic and trade development among the G20. Section 2 presents an overview of China–US trade relations and the benefits they received. The section illustrates the trade remedies and protection taken by the United States against China. Section 3 discusses the trade war between the United States and China, and the US trade deficit with China. Section 4 illustrates the efforts made by the G20 in promoting strategy for global trade growth. Section 5 presents the conclusion and some policy recommendations. This section has focused on the background of the study. The next part will discuss the recent economic and trade development among G20 countries.

2. G20’S RECENT ECONOMIC AND TRADE DEVELOPMENT

2.1. Trade among G20

In a globalized world, stable trade relations and cross-border investment are of fundamental importance. Trade has accordingly been a constant item on the G20 agenda since the first summit took place in Washington in 2008. According to the data published by the WTO, 77.5% of all goods and services exported worldwide in 2015 came from a G20 member and 76.5% of all goods and services imported were destined for the G20. In 2015, the largest trading nations were China and the United States. The United States imported merchandise and commercial services worth 2806 billion US$—representing a 13% of the global import market. China followed with imports of 2148 billion US$ and a 10% share of the worldwide market. As far as exports of goods and services are concerned, China was the country with the highest trade volume amounting to 2560 billion US$, followed by the United States with a total of 2213 billion US$. China's share of global exports totaled 12%, and the US share was 10% (the US Department of Commerce, 2018).

In 2015, the volume of goods and services exported to non-EU countries by the EU Member States amounted to 2900 billion US$, according to WTO figures. The imports into the EU totaled 2646 billion US$. In 2015, Germany ranked third in terms of imports (1342 billion US$) and exports (1579 billion US$) followed by the United Kingdom in the fourth place (Mistral, 2011; Ezeani, 2011).

However, if the 28 EU states are considered as a single trading partner and intra-EU trade flows are discounted, the European Union's trade exceeds that of China or the United States in terms of both imports and exports.

Foreign trade is of particular economic relevance in Germany and the Republic of Korea. In these countries, total exports and imports that are expressed as a proportion of gross domestic product—also known
Figure 1. Exports of Goods and Services, 2015 (in Billion US$).

Sources: World Trade Organization (WTO), 2018; and the Federal Statistical Office, G20 in Figures, 2017.

Figure 2. Imports of Goods and Services, 2015 (in Billion US$).

Sources: World Trade Organization (WTO), 2018; and the Federal Statistical Office, G20 in Figures, 2017.
as the trade ratio—amounted to more than 80%. In the United States, the domestic market is of considerably more economic importance. The foreign trade ratio here amounted to 28%. Foreign trade also played a far less significant role for the South American G20 economies: Brazil (26%) and Argentina (23%).

2.2. Trade Balance among G20

An economy’s trade balance represents the difference between exports and imports of goods and services. The trade balance ratio expresses this balance in relation to an economy's gross domestic product. If the ratio is positive, this shows what proportion of a country’s gross domestic product is used neither for consumer expenditure nor for investment within the domestic economy.

In 2015, the Russian Federation (8.2%), Germany (7.0%), the Republic of Korea (5.4%), China (3.7%), and Italy (2.5%) registered a positive ratio. A negative ratio shows the percentage by which domestic consumer expenditure and investment exceed domestic production. According to WTO data, the biggest trade

Sources: World Trade Organization (WTO), 2018; and the Federal Statistical Office, G20 in Figures, 2017.

Sources: World Trade Organization (WTO), 2018; and International Monetary Fund (IMF), 2018.
balance deficits among the G20 states were recorded by South Africa (−7.5%), Saudi Arabia (−7.2%), and Turkey (−4.6%) in 2015. Thus far, this paper has argued that the G20 should take different approaches to trade restriction. It is clear from the above that the current trade measures are inefficient and place a burden on some member states. Let us now turn to discuss the trade relations between China and the United States.

3. AN OVERVIEW OF CHINA–US TRADE RELATIONS

China–US economic and trade relations are the bilateral ties between the largest developing country and the largest developed country. China and the United States have different national conditions, and are at different stages of development, market economy, and market maturity. They both have sensitive economic fields and their own focuses of concern in economy and trade. Factors such as national conditions and stages of development determine the status, division of labor, openness, and developing paths of the two countries in globalization.

A correct view on their differences is important for accurately grasping the historical trend and promoting the balanced development of the bilateral economic and trade relations. The US–China trade tensions shifting with the new administration is likely to grow suggestive of responsiveness to public opinion.

The evidence, however, is only suggestive, as there may have been other reasons for change. For example, US bilateral and global trade deficits are likely to provoke protectionist response in run-up to US midterm election in 2018. US merchandise trade deficit with China accounts for almost half of the global US deficit and 58% of manufactures deficit; US trade deficit with China is entirely in manufactured goods.

Table 1 shows that the US trade deficits with China represent the highest across the world, this has encouraged the new administration of the United States to impose trade restrictions against imports from China via AD/CVD, safeguards, and section 301; in addition, enforcement of US sanctions against North Korea could hit Chinese firms. Figure 6 illustrates the share of US imports covered by barriers imposed under US trade laws over the period from 1995 to 2016. It can be noted that at the end of 2016, the United States had 292 AD and 82 CVD orders in place on imports. China is the major target of these trade laws: 102 AD and 27 CVD orders.

The figure also shows an estimated $44.3 billion, or 9.2% of Chinese imports, were covered by US trade laws (AD, CVD, safeguards) in 2016. It also shows an estimated $5.8 billion, or 4.2% of US exports to China, were covered by barriers imposed by China in 2016.

Figure 5. US Exports and Imports from China, 2013-2017.
Table 1. US Trade Deficits with Pacific Basin Economies, 2016, Billion US$.

|                | US merchandise | All manufacturing |
|----------------|----------------|-------------------|
| World total    | −737           | −637              |
| China          | −347           | −369              |
| NAFTA         | −74            | −46               |
| Japan          | −69            | −84               |
| Korea          | −28            | −34               |

Source: The United States Census Bureau (2018) US International Trade in Goods and Services Annual Revision for 2016.

Figure 6. Share of US Imports Covered by Barriers Imposed under US Trade Laws, 1995-2016.

Source: Chad Bown, 2017. Steel, Aluminum, Lumber, Solar: Trump’s Stealth Trade Protection.

Figure 7. US Imports from China and the Share Covered by US Antidumping and Countervailing Duties, 1995-2016.

Source: Chad Bown, 2017. Steel, Aluminum, Lumber, Solar: Trump’s Stealth Trade Protection.
Figure 7 shows that the use of import restrictions against China spiked after China joined the WTO in 2001. The United States imposed CVDs of 6.3% of imports from China in 2016. This percentage expected to increase as US started imposing further antidumping against China's imports.

Figures 8 and 9 illustrate the steelmaking capacity of China, the United States, and the world. For instance, Figure 8 shows that Chinese crude steel capacity almost tripled over the past decade. China as a share of the global steelmaking capacity increased from 34.5% in 2006 to 49.0% in 2016. Figure 9 demonstrates the major exporting markets for Chinese steel products. ASEAN and Middle Eastern countries accounted for 49% of total Chinese steel exports in 2016. Only 1% of Chinese steel exports went to the United States due to existing AD/CVD measures.

3.1. Trade War between the United States and China

The new administration of the United States has been signing a high-profile trade protectionism action considering the imposition of tariffs on the importation of Chinese goods and restrict investment in domestic companies in industries or technologies “deemed important” to the United States. Importantly, this memorandum does not implement tariffs, but rather directs the Office of the United States Trade Representative (the Trade Representative) to consider whether any action should be adopted, including the increasing of tariffs on goods from China. Furthermore, the memorandum also instigates a dispute settlement process with China under the WTO, providing both parties time (in this case, 60 days) to seek a negotiated settlement. Chinese government immediately responded to this proposal by announcing that should the potential escalation in trade restrictions by the United States materialize, China would impose a 15% tariff on 120 US products, including fresh fruit, dried fruit, nuts, wine, ginseng, and steel pipes worth just under $US1 billion in annual trade. Furthermore, China would impose a 25% tariff on eight products, including pork and recycled aluminum, which would impact about $US2 billion in trade, and it would also remove existing tariff concessions on US steel and aluminum.

The imposition of these tariffs has been justified on the grounds that steel and aluminum were being imported into the United States in volumes that threatened to impair the national security. The introduction of these tariffs has been viewed as “unjust” by countries that will be directly impacted by these measures, with media reports highlighting “tit-for-tat” retaliatory proposals, including those already proposed by the Chinese government and additional ones being considered by the European Union, being the imposition of tariffs on US goods entering the EU including cranberries, orange juice, peanut butter, Kentucky bourbon, Harley-Davidson motorcycles, and Levi’s jeans.

According to Brown (2017), the percentage of US imports subject to special tariffs may increase from 3.8% to 7.4% because of US trade cases against items such as aluminum imports, Canadian aircraft, and Chinese solar cells. This rising protectionist sentiment from the United States will likely negatively affect China’s economy. We argue that despite China’s calls to increase domestic consumption, the exports increased a significant proportion and account for about 20% of China’s GDP. However, according to the US Department
of Commerce (2018), the Chinese steel and aluminum imports have been damaging the US national security. As a result, the United States imposes additional special tariffs on these goods and it conducted an antidumping probe against Chinese and Indian steel flanges in response to investigations filed by corporate interests.

China initiated a WTO dispute procedure against the US 301 tariff investigation, calling it a gross violation of the WTO's fundamental principles. The United States argues that it cites that there is an exception that threatens the “National security.” However, this exception is a justification for its tariffs on Chinese imports, as well as its own section 232 of the Trade Expansion Act on national security.

3.2. The Impact of Trade on Jobs, Wages, and Inequality
Researchers and policymakers have considered several methods for addressing the measures taken by the United States. For instance, the manufacturing employment in the Rust Belt and elsewhere in the United States has been decimated by the rise of China as an industrial power and export-driven economy (Crowley et al., 2016). It often argues that the “bad” trade deals by previous administration have been killing manufacturing jobs at the United States and depressing the wages of American workers (Autor, Dorn, and Hanson, 2016). It also believed that the rise of China in the global economy since its accession to the WTO in 2001 has been contributed to job losses in the United States. Autor, Dorn, and Hanson (2016) found that the growth in imports from China between 1999 and 2011 costs the United States up to 2.4 million jobs. About 985,000 of those lost jobs were in manufacturing, accounting for some 17% of the 5.8 million manufacturing jobs lost during that period.

Figure 10 illustrates the jobs lost in the United States. It can be noted that from late 1990s to 2010, the United States lost nearly 20 million jobs. However, the US trade with other parts of the world has not been as disruptive. For all the criticism of NAFTA, Pierce and Schott (2016) assess the impact of NAFTA agreement on American workers as modest. They found that the trade flows with Mexico were smaller and more balanced than those with China. American manufacturing employment remained fairly stable in the years after NAFTA came into force in 1994, which plummeted only after China entered the WTO in 2001 and gained consistent access to markets in the United States.

The WTO insists that it is not an international court, with its focus on settling disputes through negotiations. It can impose trade sanctions on countries that ignore its rulings, but it provides little detail on how such sanctions can be applied.

4. G20 TRADE POLICY AND WTO
G20 has agreed to promote trade agreements to foster freer trade flows, encourage investments, promote economic integration, address intellectual property, e-commerce, and government procurement, and create stronger ties with trading partners.
Having explained why G20 adopted trade restrictions, we need to explain how G20 supports the WTO. Reforms in the world trading system have played a significant role at the G20 summits, where the group declared their commitments to strengthen the multilateral trading system, or commitments that bilateral, regional, and plurilateral trade agreements should be complementary and in conformity with the rules of the WTO. We argue that the G20 should assume a more proactive role with regard to the future of the WTO and the reform of the world trading system. Such a reform is needed in light of the growing fragmentation of the system. At the same time, the 2030 Agenda for Sustainable Development of the United Nations calls for sustainability to be the core principle of global cooperation, including the context of international trade. Among other things, the 2030 Agenda calls for “a universal, rules-based, open, nondiscriminatory and equitable multilateral trading system under the World Trade Organization.” Bridging the gap between the realities of the international trading system and the aspirations of the 2030 Agenda is a formidable challenge that cannot be tackled effectively either in the context of the WTO or the UN and the 2030 Agenda alone. The G20 is a suitable forum to bridge that gap.

4.1. G20 Measures and Protectionism

Over the past decades, the G20 policy has shifted from trade liberalization to trade restrictions. The WTO reported that, during the past three years, G20 countries applied 85 new trade-restrictive measures (e.g., a tariff); on average, almost 16 new measures were adopted during the review period, which is from May 2017 to October 2017 (WTO, 2017). The new measures include increased tariffs, export restrictions, and local content measures. Besides this, 28 measures were adopted with the aim to facilitate trade, eliminate or reduce tariffs, and simplify customs procedures. The estimated trade coverage of import-facilitating measures implemented by G20 economies (US$27 billion) is slightly lower than the estimated trade coverage of import-restrictive measures ($32 billion). This is a reversal from the previous report where the estimated trade coverage of import-facilitating measures was more than three times larger than that of import-restrictive measures. The report also noted that some G20 countries have been eliminating trade restrictions, while others caught up in a strong isolationist mood.

Trade protectionism approach is a serious issue in the G20 summits. Handley et al. (2018), Limao (2015), and Bergsten (2012) argue that the United States imposed antidumping and countervailing tariffs on imported steel and aluminum and threatened to impose broad tariffs against Chinese imports. These unilateral protectionist measures have sparked widespread criticism and provoked threats of retaliation from major trading partners, raising the prospect of escalating global trade conflicts that threaten global recovery, and it may encourage other countries to adopt trade measures.

G20 members play a fundamental role in advancing reform of the multilateral trade architecture. For instance, China has worked hard to raise the profile of the G20’s trade agenda. The Chinese G20 Presidency has encouraged a regular G20 Trade Ministers Meeting and established a Trade and Investment Working Group (TIWG). As a result, the G20 trade ministers issued a joint statement and three annexes detailing the terms of Reference of the TIWG, a general strategy on global trade growth, and guiding principles for global investment policymaking (Sacerdoti, 2015).

Trade can play a central role in achieving the Sustainable Development Goals (SDGs) relationship between trade and development. As a result, the G20 members recognize the importance of initiatives aimed at broadening the participation of low-income countries in regional trade agreements, supporting sound agricultural policies and advancing and sharpening the Aid-for-Trade initiative.

On one hand, trade financing gaps are highest among the poorest countries (Africa, Asia and Small Island developing states). Therefore, the G20 members call for WTO and World Bank and trade finance facility programs of multilateral and regional developments to enhance trade finance. On the other hand, the G20 members recognize that e-commerce constitutes an important tool to boost the participation of Small and Medium Enterprises (SMEs) in global trade. It encourages dialogue among governments and businesses to identify the opportunities and challenges in developing e-commerce.

5. CONCLUSION

The primary purpose of this paper is to lay out a research agenda on the current trade disputes between China and the United States and what efforts G20 have taken to settle these disputes? It has attempted to
investigate the key factors that contribute to the policies that are most powerful in tackling the protectionism, trade war, and retaliation. To accomplish this, I started this paper by posing questions: what the G20 can do to prevent destructive trade wars? And what the US–China trade dispute means for the world trading system? Major findings of this paper is that any ramp-up in protectionism would certainly have repercussions beyond China. Prices and availability for the United States and Chinese products in the supply chains of companies from other nations would be badly affected. Consequently, global growth would be notably curtailed as investment and consumer spending fall back. These findings have important implications for the effects of protectionism, retaliation, and trade war on establishing the world economy and saving the world trading system, suggesting that free trade system will tend to have benefits for all countries.

Based on the earlier findings, we suggest a further reform to trade and investment policy. The G20 should focus on supporting the WTO, being upfront about the mixed effects of trade and investment, and improving G20 measures to tackle protectionism. Given these findings, some policy recommendations that emerge are as follows:

- Lowering protectionist barriers to trade in goods, while allowing “special and differentiated treatment” to least developed countries;
- Strengthen an Open and Inclusive Trading System—The G20 should confirm its unconditional commitment to open and inclusive trade that is underpinned by transparency and robust adjustment assistance programs, resistance to protectionism in all forms, and a strong, nondiscriminatory rules-based global trading system;
- Need to link trade to agenda that addresses interests of developing economies in upgrading (also includes facilitation of structural adjustment in industrialized world);
- Eliminating unilaterally imposed environmental rules that are trade-restrictive or create barriers to trade;
- Undermining regional integration (integration among neighboring countries) by over-emphasizing the value of integrating with the world.

Nevertheless, such issues are important factors influencing the impact of protectionism and trade war. This special issue throws some light on this, but it also serves to highlight the need for further research on this issue.

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