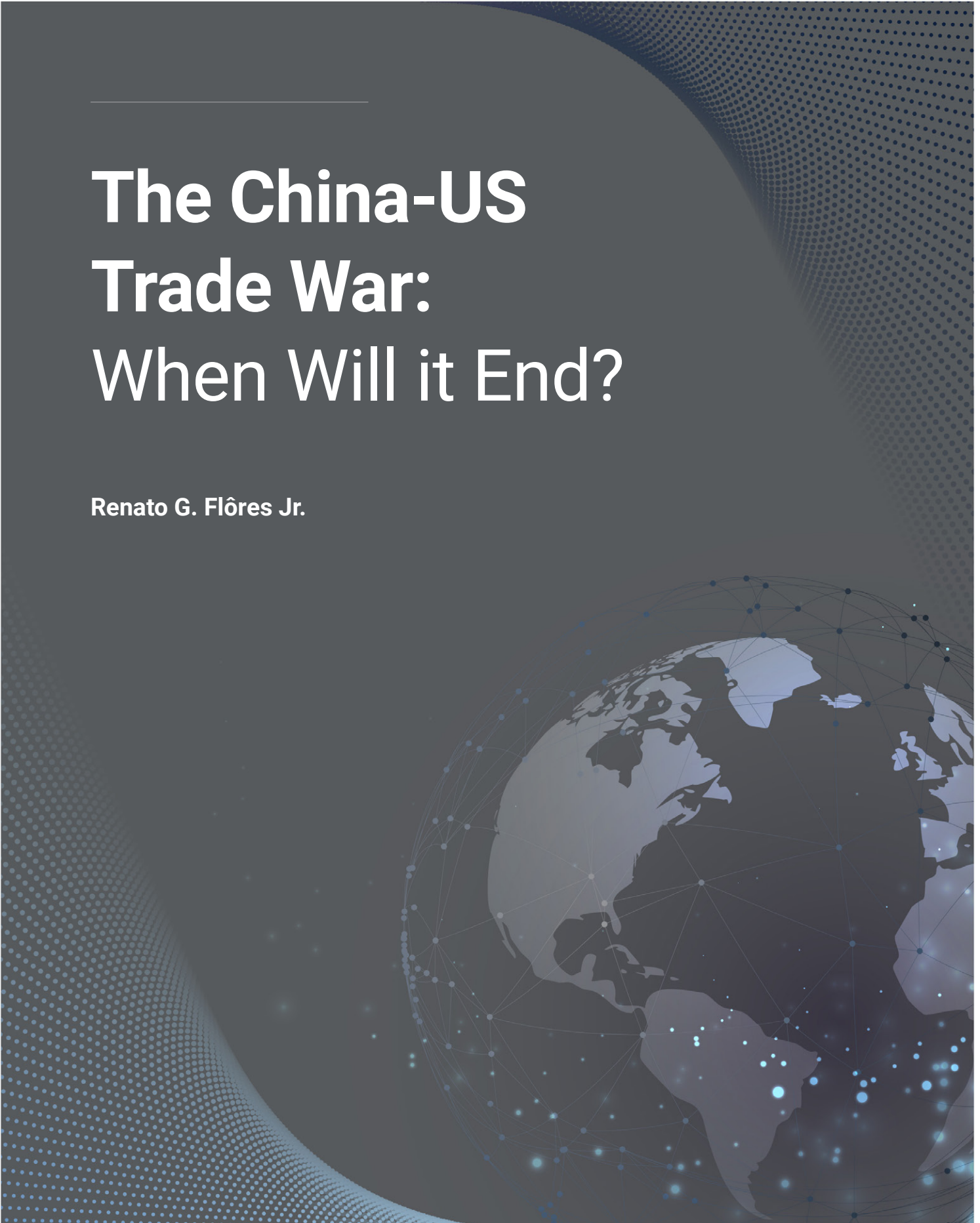


# The China-US Trade War: When Will it End?

Renato G. Flôres Jr.



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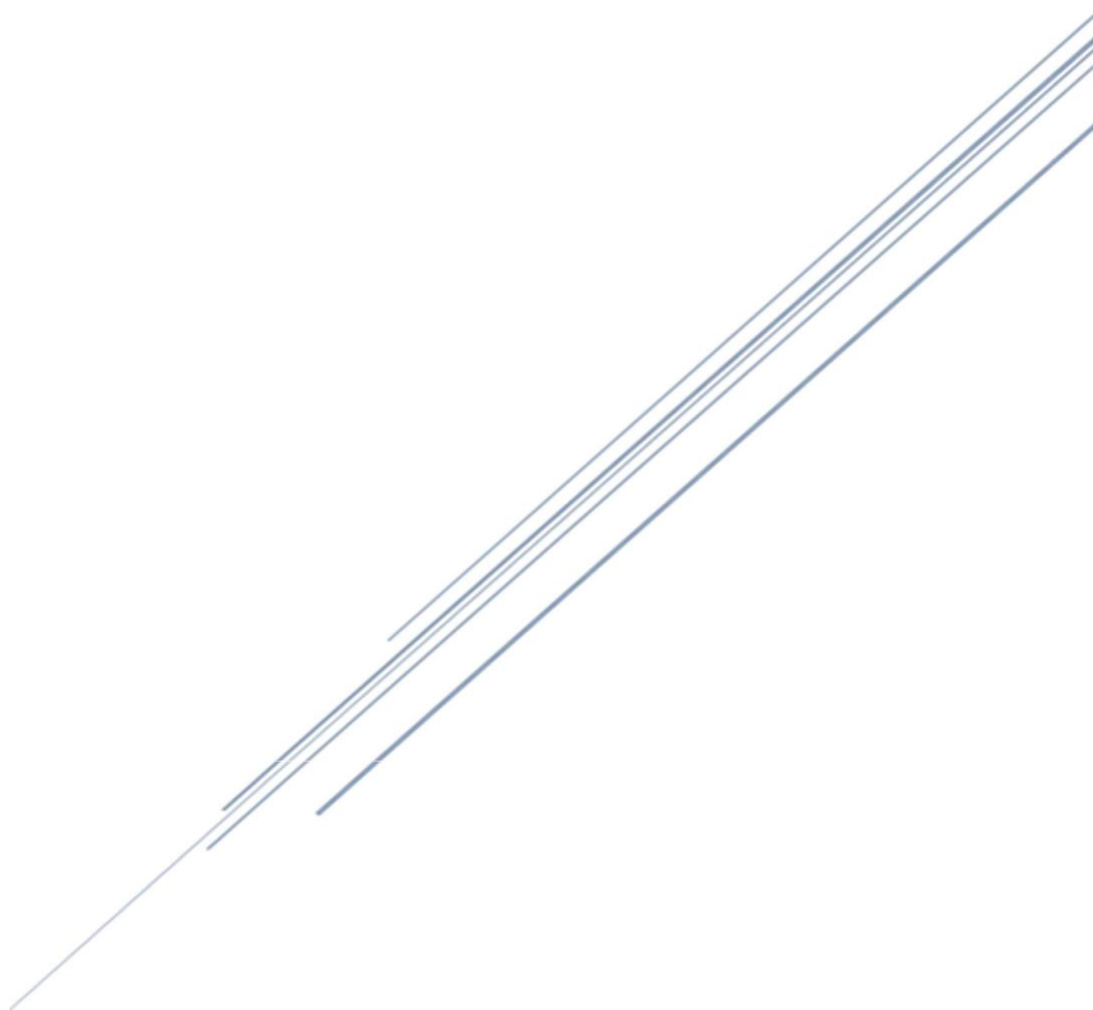
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**FGV IIU Flash Notes**

**The China-US Trade War: When Will it End?**

**Renato G. Flôres Jr.**



**FGV IIU International Intelligence Unit**

Rio, November 29, 2021

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# The China-US Trade War: When Will it End?♠

Renato G. Flôres Jr.

## 1. Introduction.

The answer to the title question is, like in the old popular song, very clear, the China-US Trade War is here to stay<sup>11</sup>.

It is one of the aspects of the evolution of the complex China-US relationship, which is neither *harmonious* -a concept very dear to the Chinese- any more, nor one of *simple, straightforward competition*, as wished by President Biden, in his opening words of the important virtual summit with President Xi, on 15 November 2021.

Actually, the relationship nowadays follows Mr. Biden's characterisation with a plus, a plus which seems unavoidable if one takes into account the size and the number of interests of both "straightforward competitors", simply the two present day superpowers.

This Note tries to draw some lines that could frame the trade war, and the relationship, into a broader perspective, and also explores points of convergence or divergence, together with likely surprises.

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♠ This **Flash Note** is based on my participation in the virtual panel (with the same title) held at the 10th Atlantic Dialogues, Policy Center for the New South, on 17 November 2021. I'm indebted to the participants -Steve Clemons, Uri Dadush, Anabel González and Adam Posen- for the lively discussion which helped me to sharpen my views. Uri Dadush also kindly commented on a preliminary version of the text. The usual disclaimer applies.

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<sup>1</sup> The original, late thirties pop-jazz song "Love is Here to Stay" is by Ira and George Gershwin, and it was the latter's last musical composition.

## **2. A few not bad news, even perhaps good ones.**

The first is that, despite aggressive shades in the bilateral rhetoric, and expectations from several hawks, particularly in the US side, the probability of the relationship turning into conflict, with the addition of violence, is rather low. The main reason why is heavily due to China: it is completely outside today's Chinese strategy to enter into conflict with a Western power, especially the hegemon. Having built its external profile by abiding to the international rules and institutions previously established, China still needs a peaceful and stable world order to pursue its international projection and be fully enmeshed in the community of nations. The least desired outcome, by far, is a disruption in this system caused by violent confrontation and the upsetting of the normal functioning of practices, institutions and established networks of all kinds.

The above attitude is shared, though with more nuances and internal disagreements, by the US. The tough lessons learned during the brief spell of unipolarity the superpower dreamt of enduring -with the Afghanistan withdrawal a final, hard to swallow fiasco- have left something. The people first, and even governments and policy makers, notwithstanding the high pitches they may add to China-bashing, are aware of the costs of a conflict with the Asian hegemon. Victory is a senseless word in the face of the damages such conflict, even if moderate, might imply.

But for an unpredictable human mistake or silly accident, magnified to disastrous consequences, it is wrong to bet on a Thucydides Trap logic, as it is wrong to name the present situation as Cold War 2.0.

There is no ideological dispute any more, there is very little territory to conquer, and the degree and density of the myriad links, connections and cross-ventures between the two superpowers make seizures by violence much unlikely.

Hard times, aggressive behaviour at the high spheres, in the offices -oval or rectangular- and statements in DC and Beijing are to be expected; difficult issues will pop up much more often, and situations may get near to despairing, but war is ruled out. Moreover, below the surface, agents will continue to fix their deals and carry business as desired, as usual as possible.



A few statistics can add more ground to the above dichotomy between the official and many times international press narrative and the sheer reality. In 2019, FDI in China reached the top figure of 1.9 trillion US dollars. From 2019 to 2020, US-China trade, in the very midst of the Trump-declared trade war, increased by 16.4 per cent. During the six first months of 2021, in a yearly basis, it has experienced a 45.7 per cent surge.

Among the big fuss on re-shoring and return to the US of producers established in China, recent surveys show that at least 72 per cent of foreign manufacturers do not want to leave the country.

Without mathematically proving anything, figures like the above support the point that sticking to the surface of the interactions is a poor guide to their real meaning. No wonder, as superpowers want to freely roam in several, different realms, arguments on human rights, or on the free and open Indo-Pacific, to quote again Mr. Biden in his opening words, will linger on and oscillate in tone and intensity for years to come.

But there are as many views of a “free and open Indo-Pacific” as perhaps countries bordering the area, and the greatest and ever expanding middle-class emerging market of this century is Asia, and nobody wants to lose this bandwagon.

### **3. Two important developments.**

Besides competition, new themes may either help co-operation or open different ways of exchange.

The first is the climate issue. The US is the greatest per capita polluter, in terms of carbon emissions, and China the top one, in absolute terms. Given the slow pace of joint international action in this area, co-operation between the two superpowers is evidently beneficial for both, besides adding to their image and goodwill in the world arena.

The two share similar objectives, both at the top and micro, city levels, and have interests in pursuing new technologies in this area, most of them harmless and off the track of crucially competitive ones. Zero-carbon goods, vehicles, appliances and different objects are an expanding market, pioneering producers -as Mr. Musk well exemplifies-must multiply their production centres and this is perhaps an emblematic example where the *simple, straightforward competition* envisaged in Mr. Biden’s words could take place.

The second point is related to the previous one and refers to a new shift in production systems and global value chains, due to the growing increase in zero- or low-carbon goods supply. Taking the electric car as a model example, the great majority of such goods will either shift demand from traditional inputs to up-to-now less needed ones or create or dramatically increase those for less used ones, like special kinds of steel or aluminium, or specific minerals, rare earths notably.

Most specific-minerals inputs have been up to now sourced from China, to where Western and world economies in general have assigned the burden of mining them, usually through open-sky, highly environmentally-damaging extractions. Market constraints will force them to use other suppliers, diversifying the providers and obliging endowed countries, like the US or Brazil, to engage in new mining activities. Metals, alloys and steels demand will suffer changes and new orders will be placed on unexpected components. This transformation, more or less radical, will move value chains to different producers and countries and will definitely create opportunities for both co-operation and competition between the two superpowers. Some may have (limited) game-changing effects.

#### **4. The role of middle powers.**

Excessive focus on the US-China rivalry easily leads to forget a substantial group of nations that may significantly change outcomes. Just to stay in Asia, India, Japan, South Korea, Pakistan and Indonesia are examples of countries that can make a difference, either in a coalition involving their peers or getting closer to one of the two giants: the middle powers. Russia and the European Union – EU are other relevant players in this same league. Their behaviour in the near future may highly condition the bilateral trade war, as they will assume different postures depending on how the derived profits and costs affect them.

The way a combined Russian and Iranian action defined things in Syria, or to imagine how a closer entente between India and Pakistan would change things in East Asia are good examples or ex or exercises to illustrate how middle powers matter.

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<sup>2</sup> In 'The World Corona Changed: the US, China and Middle Powers in the New International Order', London: Routledge, I further elaborate on this point.

The trade diversion Australia had to perform, given the recent Chinese restrictions had significant impacts on both China and the countries that replaced Australia. To further exploit up to now unexpected alliances, take South Korea, a diffident US ally. It is not unconceivable that, in the middle run, given its technological autonomy, the difficulties surrounding closer relations with Japan, and its production links with China, the country moves toward to a position closer to China<sup>3</sup>, considerably changing the balance of forces in the region.

The basic point is that the China-US Trade War affects and is affected by the mosaic of relations and measures put forward by the set of middle powers. This is also true as regards the fate of international institutions. Keeping the trade focus, the still much battered WTO can only recover from its lethargic state -despite some improvements since the new administration started- through a serious effort by concerted groups of members. Reliance on the US and China only - countries that ultimately share more in common at the WTO than with the other members- is a way of (perhaps indefinitely) postponing urgent revivals. Coalitions of middle power members, centred on common objectives and supported or not by the superpowers, is the way to not only speed up but also guarantee the pursuit of needed measures for (re-)empower the Organisation<sup>4</sup>.

## **5. Coda.**

The US-China Trade War can only be understood in the wider framework of the complex evolution of the multiple relations between the two superpowers. If, in such context, outcomes may vary according to several factors, side though not irrelevant actors, like the middle powers, counting among them; violent conflict is very likely ruled out as a possible resolution. Narratives at the surface or upper levels of the relationship may turn sour and the degree of assertiveness may become aggressive, but in many other layers business will go as usual.

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<sup>3</sup> For those keen on history, it might be enlightening to remind that this would be no novelty, both countries having entertained along the past centuries if not friendly mostly amicable relationships.

<sup>4</sup> An idea first put forward by this Author in one of the panels of the 2019 Atlantic Dialogues, Policy Center for the New South, in Marrakesh, Morocco.

One may then question, if the above is accepted, why then so much fuss, so much anxiety, especially from the US side, is displayed in this dialogue?

The answer is that, besides unavoidable fierce aspects in any competitive superpowers dialogue, lies a technology war that fuels the trade war and much of the invasive rhetoric.

Denied by some analysts, the tech war is linked to the digital galaxy and includes crucial developments in the fields of communications and computing. The one who masters a significant edge in quantum (super-)computing, for instance, will be able to develop a set of goods and algorithms, military weapons included, that will disrupt any equilibrium till now in force between the two countries.

In this case, we shall then enter *terra incognita*: the analysis must be rethought and outcomes risk leaning to the dangerous and the undesirable.

## About the Project

The Jean Monnet Atlantic Network 2.0 is a small network of six members that keep intense communication and joint activities on the Atlantic Basin. The Network also serves as a central arena for discussing globalisation and key major trends in the several Atlantic microcosms. By combining the national with the regional perspective, its research and debates take into account the different foreign interests and pressures, as well as a critical view on the possible roles and future of the European Union (EU) in the area.

It is the present link of a long chain of projects. In 2016, the project that established the first Jean Monnet Network on Atlantic Studies ([jeanmonnetnetwork.com.br](http://jeanmonnetnetwork.com.br)) sought to foster knowledge and co-operation among scholars and researchers on topics of fundamental importance for Atlantic actors in general, and for the EU, in particular. It involved a greater number of centres and universities.

Seven years later, still focussed on the original three broad thematic axes -Energy/Sustainability, Trade/Economy (International Economic Flows) and Security/Inequality-, the Jean Monnet Atlantic Network 2.0 represents a continuation and a rupture with the previous undertakings.

It intends to offer a wide, innovative and sometimes controversial view on Atlantic problems and the expectations on and scope of the EU activities relative to them. The papers in this series are a sample of its achievements.





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