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The Hype over China's Trade Dominance and the US Protectionism

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Introduction

Protectionism is often criticized in economic policy for its aim to restrict international trade to bolster domestic growth, effectively limiting access to global markets. While the rhetoric surrounding protectionism may seem appealing—vowing to aid local businesses and jobs—it often arises during economic hardships. The United States (US) and China have a history of economic and trade relations spanning over four decades. The US had various reservations over China's economic practices including accusations of copyrights and a rising trade deficit which led to trade frictions. However, since 2017, the Trump administration's challenges to China's business activities and subsequent US and retaliatory tariffs by China and other actions have spiraled into a full-blown economic and trade war.

As a result of these moves and their related threats, the Chinese and US economies are in danger of decoupling. Their mutual distrust poses a grave danger to global economic health. In recent years, Chinese industries have made steady progress in high-end manufacturing segments, including electric vehicles, batteries, solar panels, wind turbines, and more. Phenomenal progress by China has increasingly raised concerns from some Western politicians, observers, and media outlets. The US, a long-time proponent of global trade, is now reassessing its position, citing China's "overcapacity" and accusing it of flooding the market with low-cost goods. Central to the ongoing trade friction is US concerns over a new wave of Chinese low-cost exports in key high-tech sectors, including electric vehicles, solar panels, and batteries, which threaten to undermine competition.[1]This study examines the growing insecurity of US and its western allies over China's Trade Dominance and critically evaluate China's transformation into production powerhouse and the accusations by US and Western world regarding overcapacity production of China.

China's Rise in Global Trade Arena

A decade ago, China's support for steel industry led to low-cost exports which affected many foreign companies. After joining the World Trade Organization (WTO) in 2001, China's cost-effective exports increased, supporting economic and industrial growth. Since joining the WTO in 2001, China's role in world trade environment has changed dramatically from a peripheral market to a global trading power. This significant entry into the WTO has promoted China's access to international trade and led to major economic reforms, such as reducing trade barriers, lowering tariffs, and strengthening heritage protection. These changes have boosted China's economy, making it world's largest exporter and a major part of Global supply chain. The country's rapid growth is due to its competitive manufacturing industry, large and cheap labour force, and large investments in the sector.

China's emergence as a major power in the global economy has had far-reaching economic impacts. China's accession to the WTO has led to major changes in international trade patterns and integration, with many different companies moving to China to take advantage of lower prices. This innovation has changed the way the world trades, affecting both developed and emerging markets. China's economic strategy has therefore led to changes in the global economy and has affected the overall economy. In addition, China's economic growth could allow it to play a major role in shaping international trade policies and standards. Initiatives such as the Belt and Road Initiative reflect China's desire to expand trade and strengthen its global

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influence. Through these major efforts, China aims to consolidate its prominent position in the global economy and strengthen its role in influencing global economic field policy and practice.[2]

China's Rise in Green Industries

Currently, China's expanded production of steel, cars, and solar panels is driving down prices globally, raising alarms in the US and EU as China's trade surplus nears $1 trillion (about $3,100 per person in the US). They worry about "dumping," especially in electric vehicles, with European officials asserting the need to protect essential industries. The US and Europe are also working to reduce dependence on Chinese products and enhance local manufacturing, driven by measures like the Net-Zero Industry Act and the Inflation Reduction Act. Having dominated the clothing and electronics sectors, China is now a leader in electric vehicles, solar panels, lithium batteries, and wind turbines—strategically critical industries for Europe and the US as they transition to greener economies. The price advantage of Chinese goods can be attributed to multiple factors, including a complete industry chain, relatively low labor costs, and scientific and technological innovation. None of those seem to be factors related to China's "dumping of cheap goods." European solar manufacturers are nearly extinct due to Chinese competition, and the wind sector faces similar threats. Markus W. Voigt, CEO of Ariam Group, points out that European enterprises.[3]

Trump, Tariffs and Trade War

Donald Trump's 2016 election, following Brexit, underscored the frustrations of the unemployed. His "America First" policy elevated American-made products and pushed for US withdrawal from several trade agreements. However, Harvard's Weatherhead Center for International Affairs argues that protectionism is not a viable response to globalization-related challenges, despite its popularity among US politicians. The phrase "kick the can down the road" aptly describes the tendency of US leaders to postpone addressing structural issues, leading to widespread discontent. President Biden has not launched a trade war like Trump's but has maintained some tariffs and sought to restrict Chinese access to advanced technologies, particularly in electric vehicles. In the 2018 China-US trade war, Washington imposed tariffs ranging from 10 percent to 25 percent on four batches of Chinese export goods.

These tariffs remain in effect, with the average tariff rate on Chinese exports to the United States standing at 19 percent. Comparatively, the current tariff measures are more restrained both in scale and in the extent of adjustments. The targeted and restrained nature of the latest round of tariffs suggests the US and China are unlikely to engage in a full-scale trade war this year. But the situation remains precarious. This protectionist stance overlooks China's advancements in affordable EVs supported by government planning. For instance, BYD recently introduced a model priced around $14,000. With US EV purchase subsidies of about $9,000, many consumers might consider such vehicles. Biden's reluctance towards Chinese EVs reflects a protectionist view favoring US firms rather than a commitment to clean energy.[4] Many policymakers believe that the influx of Chinese imports into the US market in the 2000s weakened America's manufacturing sector, making a rapid military expansion like what helped the Allies win World War II nearly impossible.[5]

Flawed Narrative over China's Overcapacity Production

President Joe Biden and his predecessor, Donald Trump, may differ on many issues, but both seem to be vying to be the most protectionist president when it comes to China. However, the narrative surrounding the China Shock that drives current US trade policy is fundamentally flawed. While competition from Chinese manufacturers has negatively impacted certain manufacturing jobs, free trade has created more beneficiaries than victims. The economic consequences of US trade restrictions could be lessened by channeling Chinese imports through third-party suppliers, allowing Americans to purchase Chinese-made solar panels as if they were produced in India, albeit at higher costs. While such tariff strategies may appeal to voters, it is difficult to see how they would enhance national security any more than rerouting Chinese fentanyl through Mexico has addressed the opioid crisis.[6]

Consumption, Circular Strategies and High-Quality Production

China’s economic strategy has shifted from being investment-driven to consumption-led. Initially, rapid growth was fueled by heavy investments in infrastructure and manufacturing. However, as the economy matured, there was a strategic pivot towards boosting domestic consumption to create a more balanced model. This shift aimed to reduce reliance on exports and investment-driven growth while fostering a larger consumer market. Increased household incomes, urbanization, and improved living standards have driven domestic demand, stimulating production across various sectors, including consumer goods and services.

Additionally, the dual circular economy strategy has refined China’s approach by focusing on sustainable development and resource efficiency. This model emphasizes recycling and reusing resources to reduce waste and environmental impact while optimizing resource allocation. By adopting circular economy principles, businesses enhance their competitiveness and productivity, contributing to more resilient and sustainable economic growth. Furthermore, China’s focus on high-quality production involves transitioning from low-cost, labor-intensive manufacturing to advanced, technology-driven industries. Investments in research and development, advanced technologies, and high-value-added sectors are elevating production capabilities and global competitiveness, fostering innovation, improving product quality, and creating high-skilled jobs.[7]

Chinese goods are increasingly competitive in the global market. Chinese ingenuity, diligence, and adaptability have ensured a sufficient supply of everything from daily necessities to high-quality tech products, allowing Chinese manufacturing to make a great contribution to stabilizing global trade during a challenging time. China is by no means exporting excess capacity or dumping products they can't sell at home. Meanwhile, the Chinese market is big enough to accommodate players from China, the West, and other countries at the same time. Chinese officials have repeatedly stressed that foreign investment is welcome in China and the door to China will only open further.[8]

Negative Consequences of US Protectionism

Global trade has been shown to alleviate poverty and create opportunities, while trade wars can lead to adverse consequences. The World Bank's assessment of Trump's 2018 trade conflict with China revealed a decline in US exports to China, yet China's role in global trade expanded. Low-cost Chinese goods could contribute to inflationary pressures in the US, highlighting inconsistencies in US officials' narratives blaming Chinese manufacturing for domestic economic woes. This scapegoating distracts from America's issues, leading to misguided protectionist policies that can exacerbate inflation and disrupt markets. The inflation currently affecting the US is primarily due to domestic economic policies rather than Chinese actions. The Federal Reserve's stringent monetary policies during the pandemic, followed by rate hikes, have caused turmoil, particularly in commercial real estate and regional banks. Moreover, tariffs imposed during the trade war have raised prices on a range of goods, with a 2021 Moody's report indicating that over 90% of tariff burdens fell on US importers, not China. The push for "decoupling" has prompted companies to move operations, raising production costs. Although protectionism aims to shield domestic jobs, it has not improved competitiveness, contributing to rising prices and wage pressures, as evidenced by the recent United Auto Workers strike.[9]

The real issue in the US-China trade imbalance is not the lower prices of Chinese goods; rather, the US could balance trade by exporting more high-end products to China and engaging in China's economic development. However, current US trade policies risk undermining this mutually beneficial relationship, adversely affecting both nations. An AP poll indicates that 57% of Americans believe the economy has worsened since Biden took office in 2021.

Conclusion

Protectionist policies are ineffective in today's interconnected global economy, as they exacerbate existing challenges and deepen divisions. The US government needs to acknowledge the limitations of these strategies and address issues comprehensively. While protectionist rhetoric may gain political support, it ignores the historical role of the US as a major advocate and beneficiary of globalization, highlighting the need to reassess economic and trade policies. Blaming China for US economic problems is counterproductive and could lead to poorly conceived policies that worsen the situation. Instead of focusing on strategic competition, the US should prioritize economic collaboration with China. This cooperative approach can facilitate access to affordable production of electric vehicles, lithium batteries, and solar panels, benefiting developing nations and the global south. Such cooperation not only promotes global economic growth but also advances climate change mitigation and sustainable development, fostering a more equitable and resilient global economy.

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