EURASIAN RESEARCH INSTITUTE
weekly
e-bulletin
03.04.2018-09.04.2018 • No: 158
ERI EURASIAN RESEARCH INSTITUTE
AKHMET YASSAWI UNIVERSITY

Weekly analysis

EVALUATION OF POTENTIAL U.S.-CHINA TRADE WAR

The possibility that the escalation of trade tensions between the world's two biggest economies, the United States and China, will turn into a trade war remains high on the global agenda. The trade conflict between the countries began on March 22, 2018, with U.S. President Donald Trump signing a memorandum that applies tariffs on $50 billion worth of Chinese goods. Trump, who imposed a 25% tariff on imported steel and a 10% tariff on imported aluminum as of March 23, 2018, ordered the U.S. Trade Representative (USTR) to publish in 15 days a list of Chinese goods that would be subject to additional tariffs. On March 23, 2018, Beijing announced its plans to impose additional import duties on a list of U.S. products worth $3 billion in retaliation to Trump's decision. Indeed, on April 1, 2018, China proposed an additional 15% tariff on 120 U.S. products, such as fruits, nuts and wine, and a 25% tariff on eight other products, including pork and recycled aluminum, to be enforced on April 2, 2018. On April 3, the USTR published a list of 1,333 Chinese products, on which it intended to impose an additional 25% tariff, while the Chinese Ministry of Commerce announced that it would impose an additional 25% tariff on 106 U.S. products on April 4, 2018. Furthermore, Washington accused Beijing of stealing intellectual property and forcing foreign companies to transfer their technology in order to be permitted to operate in China, while Beijing responded by accusing Washington of unilateralist and protectionist actions.

The trade conflict between the United States and China has increased tensions between the two countries that are balancing competition and cooperation. Since China's emergence as the world's economic hegemon with increased regional and global influence, the competition between Washington and Beijing has sharpened, thereby giving another confirmation that a diplomatic tension or a trade war is imminent. On the one hand, Xi Jinping's administration is trying to speed up the economic, political and military rise of the country under the slogan "Chinese Dream". Moreover, within the framework of the Belt and Road Initiative, China aims to strengthen its foreign policy by both increasing regional and global activity and ensuring access to natural resources and foreign markets. Meanwhile, Trump's administration strives for protecting the country's global hegemony under the slogans "Make America Great Again" and "America First". However, it can also be seen that cooperation between the two countries has strengthened in certain issues. For instance, there have been significant developments in the U.S.-China relations within the four major high-level dialogue mechanisms, which were initiated during the first face-to-face meeting between Xi and Trump in Florida in April 2017. On the other hand, the U.S.-China economic and commercial disputes have only intensified.

In November 2017, Trump's administration formally rejected China's bid for the market economy status. Moreover, the USTR launched an investigation under Section 301 of the U.S. Trade Act of 1974 to address the policies of China that burden the U.S. businesses. In addition, in January 2018, the United States imposed a 30% tariff on imported solar panels and a 20% tariff on imported washing machines, which had a negative effect on the Chinese exports since the country's share in the U.S. imports of solar panels is 8%. These developments already signaled that more serious trade tensions between the United States and China were imminent. From this point of view, both sides are considered to be ready for escalating the current trade confrontation that could result in a full-scale trade war. In fact, this is not the first time the United States has used Section 301 of the Trade Act against China. For instance, the United States initiated several investigations against China under this legal provision in April 1991, November 1991, June 1994, June 1996, and November 2010, but in each case the parties ultimately managed to reach an agreement.

The United States is China's largest export market and fourth largest provider of imports, while China is the third largest U.S. export market and the largest importer of the U.S. goods and services. For instance, in 2017, the total U.S.-China trade turnover reached $635.97 billion, which is 10% higher than that of 2016. In 2017, the U.S. exports to China amounted to $130.37 billion, which is a 12.8% increase year-on-year, corresponding to 8.4% of total U.S. exports, while the U.S. imports from China amounted to $505.6 billion, which is a 9.3% increase compared to 2016, accounting for 21.6% of total U.S. imports. In January 2018, the total trade volume between the United States and China reached $55.62 billion growing by 8.1% year-on-year. Taking these figures into account, it becomes obvious that a potential trade war can negatively affect a wide range of sectors of the U.S. economy, such as transportation equipment manufacturing, mechanical and electrical engineering, agriculture and chemistry, while in China it can cause a major damage to such sectors as light manufacturing (furniture, toys, textiles) and metal industry. For example, in 2017, the share of transportation equipment in the U.S. exports to China totaled 22.6%, while the shares of mechanical and electrical, agricultural, and chemical products reached 19.2%, 11.5% and 8.6%, respectively. On the other hand, the share of mechanical and electrical products in China's exports to the United States amounted to 50.8% in 2017, while the shares of furniture and toys, textiles, and metal products reached 12%, 7.7% and 5%, respectively. By imposing additional tariffs on 1,333 categories of Chinese-made goods worth $50 billion, the United States could seriously harm the export-oriented economy of China. According to some estimates, if the United States introduces additional tariffs, China's GDP growth could fall by 0.1%-0.2%. From the U.S. perspective, since China is the largest importer of U.S. agricultural commodities, it is no accident that China's second retaliatory decision of April 4, 2018 covers imported agricultural products, such as corn and soybeans. In 2017, China imported 32.86 million tons of U.S. soybeans worth $14 billion. As a result, China's tariffs targeting the U.S. agricultural sector could reduce the support given to Trump by the Republican lawmakers from the U.S. Midwest, the country's major agricultural region, which accounts for 65% of the corn and soybean production.

To conclude, the possibility, as well as a potential damage that a large-scale trade war could bring to the U.S. and Chinese economies, or even the world economy, depends on steps to be taken by the two countries. However, there are still various issues at both the regional and global levels, such as the Taiwan issue, the North Korean nuclear problem and the South China Sea issue, that may force the parties to resolve their trade tensions through dialogue. For instance, the North Korean nuclear problem is one of the issues that forces Trump's administration to seek cooperation with China. That is possibly why North Korean leader Kim Jong-un's first visit to China corresponded to a period when Beijing was looking for an additional leverage in its trade standoff with Washington. Therefore, since the global geopolitical and geoeconomic environment depends heavily on the U.S.-Chinese relations, the solution of the escalating trade dispute between the United States and China through dialogue is crucial in terms of preserving the global trading system.

Written by Omirbek Hanayi,
Eurasian Research Institute, Kazakhstan

Politics, Foreign Affairs and Security

- President of Uzbekistan Shavkat Mirziyoyev signed a decree, transforming the State Committee of Architecture and Construction of Uzbekistan into a Ministry of Construction. The new ministry will implement a state policy in city development promoting energy-efficient and energy-saving innovative projects and solutions.
- During the trilateral summit of the presidents of Turkey, Russia and Iran held in Ankara, Recep Tayyip Erdogan, Vladimir Putin and Hassan Rouhani focused their attention on further measures to settle the armed conflict in Syria. The parties agreed to speed up efforts to ensure security on the ground in Syria and protect civilians in the de-escalation areas.
- During the 32nd meeting of the Council of the Regional Anti-Terrorist Structure of the Shanghai Cooperation Organization (RATS SCO) held in Tashkent under the chairmanship of Kyrgyzstan, the high-ranking delegations discussed projects of the SCO Cooperation Program for Combating Terrorism, Separatism and Extremism for 2019-2021 and approved the Report on Activities of the RATS SCO in 2017.
- During his official visit to Astana, Deputy Foreign Minister of Russia Grigory Karasin met with Deputy Foreign Minister of Kazakhstan Galymzhan Koishybayev to discuss the current state and prospects for the development of bilateral cooperation, the situation in Central Asia, cooperation in multilateral associations, as well as the strengthening of regional security.
- During his official visit to Beijing, First Vice Prime Minister of Kyrgyzstan Askarbek Shadiev met with Chairman of the State Committee of Hygiene and Health of China Ma Xiaowei to discuss issues of bilateral cooperation, in particular in the field of traditional Chinese medicine, medical tourism and scientific research.
- During his official visit to Moscow, Defense Minister of Vietnam General Ngo Xuan Lich met with Defense Minister of Russia Sergei Shoigu to sign a military cooperation roadmap between Russia and Vietnam covering the period of 2018-2020. The meeting was held on the sidelines of the 7th Moscow Conference on International Security.
- During the meeting with the top Russian military commanders, Russian Defense Minister Sergey Shoygu announced that the Caspian Fleet would be moved from Astrakhan to Caspiysk, Dagestan, stressing that moving the fleet was a serious contribution to security in the Caspian area.

Economy, Finance and Energy

- According to the Russian government, 12.2 billion rubles ($212.63 million) will be allocated from the country's Reserve Fund to support car manufacturing and light industry enterprises in 2018. In particular, to stimulate car sales, 3 billion rubles ($52.29 million) will be allocated to banks to reimburse declining revenues on preferential loans issued in 2018. The government is also going to allocate 500 million rubles ($8.7 million) in subsidies to Far Eastern carmakers to transport their products to other regions of the country, which will ensure the transportation of at least 5,000 cars in 2018.
- According to the U.S. Census Bureau, the U.S.-Iran trade turnover stood at $27.5 million in the first two months of 2018, which is a 7% increase compared to January-February 2017. The U.S. exports to Iran accounted to $20.4 million in the 2-month period, which is 67.2% more year-on-year. Meanwhile, Iran's exports to the United States decreased by 47.4% to $ 7.1 million.
- According to the state-owned energy company of Ukraine Ukrtransgaz, in March 2018 the amount of gas transit via the Ukrainian gas transmission system grew by 21.3% totaling 8.1 billion cubic meters compared to March 2017. However, in the first quarter of 2018 the gas transit from Russia via the territory of Ukraine decreased to 20.1 billion cubic meters, which is 13.3% less than in the first three months last year.
- According to the Ministry of Finance of Tajikistan, the country plans to spend over $115 million on the construction of the A and F segments of the Kulyab-Kalaikhumb road. It was noted that the construction and reconstruction of the Kulyab-Kalaikhumb highway is mainly financed by the Islamic Development Bank, Saudi Development Fund, Kuwait Fund for Arab Economic Development, Abu Dhabi Fund and OPEC Fund.
- According to Minister of National Economy of Kazakhstan Timur Suleimenov, the country's nominal GDP in 2018 is expected to equal 57.2 trillion tenge ($178.98 billion). This is higher than the indicator projected in August 2017 by 1.3 trillion tenge ($4.08 billion). Real GDP growth is expected at 3.8% (previously forecasted at 3.1%).
- According to the state owned Food Contract Corporation of Kazakhstan, in the first quarter of 2018 the country exported about 80,000 tons of grain and oil crops to foreign countries, including over 58,000 tons of barley to Iran, 10,000 tons of wheat and over 400 tons vegetable oil to China, about 7,000 tons of wheat to Uzbekistan, and 3,000 tons of wheat to Azerbaijan.
- According to the State Customs Committee of Azerbaijan, 726.99 million manats ($426.99 million) were transferred to the state budget in January-March 2018, which is 27.3% more than in January-March 2017. In March 2018, the customs duty revenues increased by 35.2%, while the value added tax revenues increased by 36.1% as compared to March 2017.
- According to the National Bank of Kyrgyzstan, in March 2018 international reserves of Kyrgyzstan amounted to $2.1 billion, decreasing by $3.61 million over the month, despite the absence of foreign exchange interventions. However, it was also noted that the figure has increased by $32.19 million since the beginning of the year.
- According to the National Bank of Belarus, the country's gold and foreign exchange reserves totaled $6.99 billion as of April 1, 2018. In March 2018, the country's gold and foreign exchange reserves went down by $98.8 million, or 1.4%, after the increase of $616.1 million, or 9.5%, in February 2018.

Society and Culture

- During his official visit to Oman, Minister of Culture of Belarus Yuri Bondar met with Omani Minister of Heritage and Culture Haitham bin Tariq Al Said to sign a memorandum of understanding on heritage and culture, as well as the agreement on cooperation between the history museums of Belarus and Oman.
- Metropolitan Alexander of Astana and Kazakhstan presented a centuries-old icon, which was donated by President of Kazakhstan Nursultan Nazarbayev to Orthodox Christians of Almaty. The Tikhvin icon of the Mother of God was handed over as a gift to all Orthodox Christians of Kazakhstan on the occasion of the Easter holiday.
- According to the Uzbek State Security Service, over 22 million people, including about seven million foreign citizens, passed through Uzbekistan's border control points in 2017. Over 920,000 vehicles, of which more than 400,000 were foreign cars, were inspected. In 2017, 4,940 border violators were detained.
- The hunger strike of Batumi seaport workers of the Kazakh state-owned company KazTransOil was stopped following the negotiations of the board members with workers. The employees of the port had announced a hunger strike demanding the revision of the insurance package, an increase of their salaries, as well as the dismissal of the director general of Batumi Seaport LLC.

EURASIAN RESEARCH INSTITUTE
Mametova 48, Almali, 050004,
Almaty / KAZAKHSTAN

Office: +7 (727) 279 97 94 Fax: +7 (727) 279 24 26
ayu.edu.tr • eurasian-research.org
info@eurasian-research.org

Prepared by
Lidiya Parkhomchik, Dauren Aben, Daniyar Nurbayev