

A Stimulus for China's Economic Growth and Transformation

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Abstract. The Sino-US Trade War began when US President Donald Trump signed a new trade policy that increased tariffs on some Chinese goods. However, the trade war also serves as a catalyst for China and its citizens to intensify their efforts in the areas that have been blocked. Although it actually impacted the Chinese industry in some way, it still did let China change its scientific research outlook and cause the economy to develop. So, long story short, this article aimed to show the benefits and losses to China and the Chinese. We also delved into the history of the US and the role of President Donald Trump in the trade war. By analyzing China's GDP and RMB rate as well as the stock market quantitatively and qualitatively over the period 2017-2020, while examining the results, impacts, and national conditions, we can gain a more comprehensive understanding of the Sino-US trade war and its impact on the Chinese economy, including the RMB rate and stock markets in the present day.

Keywords: China, Sino-US Trade War, US, Economic Growth

1. Introduction

In March 2018, the Republican Party president, Donald Trump, initiated the Sino-US Trade War, also known as the Sino-US Trade Friction, by instructing the US government to impose high taxes on Chinese or made-in-China goods. There are two important sides in the trade war: However, during that period, China didn't have enough export knowledge to handle the dramatic changes in the trade market around the world.

The Sino-US trade war is primarily caused by the following factors: Microeconomic friction stems from the significant surge in goods imports, the disparity in trade between the two nations, the investment in national projects, commonly referred to as investment friction, and the technological blockage resulting from varying technical skill levels, particularly in high-precision technology fields [1]. The two major world economies are competing over this, while China focused on the importance of establishing a comprehensive legal system about intellectual property and its protection which is the exact point that the United States wants to attack [2].

In 2019, the US listed the Huawei industry as a controlled entity. It is the second part of trade war, which aimed to restrict the development of scientific research or high-precision equipment made by Huawei. China appears to have a strong foundation in the first industry, whereas the second

industry is still in its infancy and lacks the advantages of the semiconductor industry. Therefore, the US has primarily concentrated on imposing restrictions on the Chinese industry [3].

The Sino-US Trade War encompasses several key aspects, including the use of high-precision technology like chips and its impact on the shipping industry. The United States tried to use the trade war as a weapon to restrict China's development in technology and economics.

2. Literature review

2.1. China's economy by 2018

After entering the 21st century, China continued to develop. With a population of over 1.4 billion, it made significant strides in building its economic system. When China becomes an opponent of the US and the world's second largest economy. Following the 2008 global economic crisis, China made significant changes to its development strategy. The recovery economic policy did help China get through the crisis and develop steadily. Before the trade war, the trade deficit between China and the US soars. Until 2018, it became a huge number of 419 billion [4]. As we entered the 21st century, the trade deficit between China and the US increased significantly. China joined the World Trade Organization, which strengthened its power in the trading area. China's economy is progressing forward with the assistance of the WTO and its new trading policy. And after 2010, China became the world's second-largest economy. The United States regards China as a major economy and trade competitor. Back in 2014, the President Obama initiated a plan or policy named "Back to Asia" and "Trans-Pacific Partnership Agreement," which aimed to contain China's economic and trade development [5].

2.2. China's economy during the US-China trade war

Although the policy of raising the tax rate only affects the first batch of goods worth 50 billion and retraces the price in subsequent trades, it still had a 1% impact on China's GDP [6]. The stock market economy was actually affected by the change in tax prices. Bourses in Shenzhen, Shanghai and Hong Kong falls 10%-30%, although the Standard and Poor 500 saw a slight increase in January 2019, it took several years to recover from the recession. Finally, it stopped falling and returned to normalcy in 2024.

In China, the fluctuations in stock prices do not accurately reflect the overall economic situation, as the majority of stockholders will sell their holdings when the prices decline. Should an event such as the Sino-US Trade War occur, it serves as a cautionary tale, alerting stockholders to the potential impact on their holdings. Therefore, some businessmen will wisely avoid risks from the exchange of stock. From a societal perspective, the decline in stocks has an impact on humanities, particularly the value of houses. From the wealth effect perspective, investors may increase their investments in the real estate industry, potentially leading to an increase in house prices. On the contrary, if the stock market is bad in the current season, investors will not have enough money, or they will just hold their money tight. Sometimes, when the stock market is performing poorly, the government will intervene in house pricing, which can have a significant impact on stabilizing the price. As a result, both the stock market and house prices are filled with uncertainty, and they are likely to fluctuate sharply following events such as the Sino-US Trade War. In terms of the economic situation, uncertainties about global economic growth can impact domestic housing prices and stock markets at any given time.

The next crucial aspect of the research is the exchange rate of the RMB. The RMB rate began to decline in 2017. After President Trump introduced tax-increasing policy, the RMB to US dollar depreciated more than 7% [7]. While Chinese actually don't think it's too bad because what matters is the CFETS and the onshore exchange rate instead of offshore. China have to keep the RMB trade-weighted stable, which would help to keep a good relationship with the trading partners. Only by doing this can they keep a good relationship with those main partners and have a great develop in trading area in the future.

Both the CFETS RMB rate and RMB central parity began to decline from 100 to 96 in January 2018, but they began to rise again in June 2018. Up until December 2018, the CFETS RMB rate and RMB central parity peaked at 106, a rise of more than 10 points [7]. Following the onset of the trade war in March 2018, China focused its efforts on stabilizing the RMB rate. Based on my research, China prioritized controlling the RMB rate through interventions in GDP and the social economy. Although the RMB depreciated when converted to the U.S. dollar, but the RMB rate actually changed only a little bit in other countries around the world. This further demonstrates that China controls the impact of the trade war on the RMB rate, and it won't alter China's global image. In summary, China's RMB rate change won't change the macroeconomic appearance, but it does have some impact on the GDP growth. And China will continue trading with the United States after the United States callbacks tariffs to 10%.

2.3. The trade war's impact: winners, losers, and lessons

Because of the Sino-US trade war in 2018, governments pay more attention to the growth of GDP and the economic situation. The Chinese government aims to allocate more financial resources to ensure a specific level of GDP development. This strategy did make the economy develop, but it also had some negative impact. Imagine a country can still develop fast while being restricted by other countries. It definitely has a small amount of equivalent exchange between macroeconomics and society or humanities. Therefore, if the country's economy improves over time, there will be a rapid advancement in technology and scientific research. While the growth of the GDP rate will directly affect people's living standards, people will live a happy life with their money in hand. However, during the Sino-US trade war, the GDP growth rate drops by more than 2%, leading to a decrease in the gross domestic product, particularly in the manufacturing and import/export industries. Some of the export industries' stock prices fall down, the amount to United States falls. "Export goods to US" became a big problem for China and the Chinese. This undoubtedly reduces China's export amount. On the one hand, China sent a dedicated ambassador to negotiate with the United States, clarify that China has nothing to do with intellectual property that belongs to United States, and ask the United States to cancel trade policies and related sanctions against China. On the other hand, the Chinese government and central bank dedicated to lower the interest and promulgate a series of policies that benefit the people. This type of movement has stabilized society and lessened its impact. However, the movement directly affected some industries, such as the transportation, export, and technology sectors [8].

After decades of development, China's labor became increasingly expensive, prompting the United States to explore alternative markets with lower labor costs. The ongoing trade war presents a significant opportunity for these markets. The United States could benefit from other Asian countries, such as Thailand and Vietnam. Therefore, the United States made a better decision to reduce its imports from China and strengthen its cooperation with countries that have lower labor prices, even though it came at a greater cost in terms of GDP and import amounts. Although many professors and professionals said that there's no winner in the trade war, the two parties are both

losers. However, in my opinion, China has learned a valuable lesson and will be better equipped to handle similar situations in the future. The United States has increased its cooperation with low-price labor countries.

3. Results and discussion

3.1. The impact of trade wars on China's technological development

As the fast-paced, developing technology company Huawei made a mark in the 21st century, Apple's company in the United States started to treat it as a powerful opponent. In 2018, the Sino-US trade war led to restrictions on the company HUAWEI. Obviously, the United States views the trade war as an opportunity to crack down on HUAWEI. On December first, 2018, the vice chairman and CFO Wanzhou MENG was arrested in Canada. Combine with the control of the United States and its partner countries on chip exports to China, this represents the restriction not only on the HUAWEI company but also on China's technology development. As a result of these restrictions, the Chinese government is compelled to allocate more funds towards the development of a new, made-in-China chip for its technology industries. This results in a deceleration of GDP growth and an acceleration of scientific research advancement. Indeed, the trade war has had a significant impact on Huawei. But for China, the trade war stimulated chip industry to develop at a fast pace. Years later, with the introduction of made-in-China semiconductors and AI, China's technology also advanced in response to these restrictions. Technology development is directly linked to GDP, and in fact, the trade war indirectly stimulates GDP growth.

The competition in technology comes from both the business sector and the national security aspect. No country is willing to give up its scientific research or high-precision technological core to others. So the Sino-US trade war can also be seen as an opportunity for China to develop its GDP under pressure and explore a new path in scientific research and technology areas. China's policy delineates its approach to addressing technology limitations. And according to the Chinese Communist Party⁹ (CCP) set out China's goal is to take full control over its high technology area and becoming a leader in a worldwide of technologies, especially new advanced scientific technology [9].

Until now, China continues to face restrictions under the United States' technology policy as a result of the Biden administration's extension of Trump's trade strategy. Currently, some European countries aim to limit Huawei's advancement in emerging technology areas, such as 5G. However, as China's chip industry continues to develop and mature, it is becoming increasingly difficult to completely influence the HUAWEI company, unlike what the United States did in 2018-2019. Therefore, the restriction on Huawei has had a significant impact on China's GDP growth and technology sector, but it also stimulated China to develop better after they learn that lesson.

3.2. Impact of trade wars on social development

Housing issues are what people are most concerned about during and after the trade war. Some stock markets have experienced a decline of more than 30%, leading to a shift in business and economic priorities towards the real estate industry. However, from 2018 to 2020, the total amount of financing for listed housing companies decreased. The monthly financing amount decreased by 21.4%. With the new austerity policy on overseas financing, company debts, and the introduction of new national fiscal policy to face the effect of the sino-us trade war, the real estate industry further declined. In response to the real estate industry's decline, the central bank of China reduced the

deposit reserve ratio by 0.5%, a move that effectively provided funding for over 700 billion to both industry and society. So, long story short, as for China, the real estate industry is the main means of maintaining the exchange rate and increasing GDP.

The increased import tax, not only affects the real estate industry but also affects manufacturing. Such as metal, chemical, and plastic production. During the Sino-US trade war, these manufacturers were forced to pay more as import tax, which caused layoffs and cost reduction. It led some of the small manufacturers to declare bankruptcy, which caused number of jobs to fall.

According to a survey conducted by the Bank of China's Institute of International Finance, one-third of the goods exported to the United States were technology or communication equipment, with furniture products accounting for half of these exports [9]. This implies that the United States aims to disrupt China's production of essential goods by influencing the export of daily necessities and its employment component.

In terms of employment issues, the trade war impacts more than 3.3 million people in consumer goods manufacturing and communication equipment manufacturing. The survey shows the largest percentages are in consumer goods manufacturing and communications equipment manufacturing. The U.S. aims to limit the impact of these two manufacturing industries on China's manufacturing sector and reduce employment opportunities [9]. And the US actually did it. This strategy raised the unemployment rate by more than 0.4%. And the unemployment rate is 3.8% in industry area employees. By the way, it should be noted that other manufacturing, such as mining and the textile industry, was also affected due to the impact of the trade war [10].

4. Conclusion

This article mainly focuses on the situation of China from the perspective of the United States and analyzes China's response to these kinds of situations not only in government's aspect but also from the society aspect. The article reveals that China's increased investment in technological development, a response to the technological blockade, has indeed slowed down GDP growth, a situation that many in China do not wish to witness. And because of the GDP increasing rate changes, the real estate industry and stock market will continue to change. This is the real point that affects people's daily lives. But conversely, it prompted Huawei, the company that made the technology product in China, develop a lot more faster than before. And it also allows China to truly have its own technology chips. The trade war presents China with an unparalleled opportunity, fostering maturity in addressing economic and financial issues, as well as technological limitations. In my future research, I would concentrate more on the Biden administration and the second term of President Donald Trump, integrating the economic, financial, and technological circumstances of both China and the United States. In this article, I did not put Biden's government in, and I only analyzed data from 2018 to 2020, which actually lost some of the point about future development and the last of the trade war after COVID-19. From analyzing further in Biden and the future United States to the China trade war during Trump's second term, we expect to gain more information and summarize U.S. behavior in order to examine the fuller implications for China.

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