

The Impact of Sino-US Trade Friction on China's Argo-forest Products: Stylized Facts and Prospect

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Abstract. Sino-US trade friction is a crucial issue in the economic relationship between China and the USA. This paper analyzes how friction influences the bilateral trade of agroforestry products from the perspective of changes in trade volume, using recent-year data. The results show that Sino-US trade friction dissevers and reconstructs the global value chain of agroforestry products. This variation imposes more harm than good on the related global trade pattern. Furthermore, this paper lists and illustrates three measures taken by the Chinese government to deal with the trade friction: expanding the alternative market to meet domestic demand and fill the supply gap, improving the added value to ameliorate the structure of foreign trade and enhancing core competitiveness, and establishing an early warning mechanism to guard against abnormal changes in the international market and increase trade security. Finally, in response to the situation of trade friction, this paper puts forward two politically-sound suggestions that should be adopted by China and the USA for rebuilding a mutually beneficial pattern: negotiating rationally and following the rules of the WTO.

Keywords: Sino-US trade friction; Argo-forest products trade; Industry chain; Trade pattern; Mutual benefit.

1. Introduction

Argo-forest products are one of the key areas of Sino-US trade friction. There is a huge demand for Argo-forest products in China's domestic market. Therefore, related trade with USA has become an extremely important part of the chain. China's agricultural trade volume with USA has always been large for a long time; meanwhile, a high complementarity exists in the trade of Sino-US woody forest products, the United States is the largest import and export trading partner in this area. In the economic and trade corporation between China and USA, those two products cannot be underestimated; moreover, they have already forged a pattern of converging interests called "You have me and I'm in you" [1]. That brings considerable revenue to those two countries and promotes social and economic development.

During the time of tight trade relations, the trade volume of Argo-forest products between China and the United States has decreased significantly, and the continuously growing trend for many years has been paused. This decline not only shows the adverse outcomes of the Sino-US trade friction but also becomes a representative viewpoint of analyzing the effect of it. Although the unilateral trade war driven by the United States is aimed at safeguarding their interests, it objectively damages the mutually beneficial and win-win trade pattern which is already built between those two nations. Sino-US trade friction will dissever and reconstruct the global value chain of Argo-forest products [2], this is also reflected in the relevant areas of others. Trade friction has affected the supply & demand chains of numerous products in China, and the value chain between China and USA has been implicated likewise. This phenomenon is going to eventually change the international division of labor of the global industry, promote the perfection of international trade rules, and accelerate the all-around development of regional trade and free trade as well [3]. It should also be noted that the downturn in bilateral trade volume directly due to the mutual customs collection by the two sides will produce a trade diversion effect: the import and export volume in some countries or regions will increase, but generally the global trade volume is still declining [4]. Not only in the domain of Argo-forest products, but this is also a typical embodiment of the changes in the global trade pattern: the partial benefits of global trade are raising but the overall benefits are falling [5]. The continuously complex situation

requires China to effectively increase the supply of domestic Argo-forest products, actively expand the alternative market and establish a “dual circulation” development system [6]. Only in this way can the crisis be coped with.

This paper will refer to the relevant trade data, summarize the trade performance of China’s Argo-forest products, and sum up the developmental characteristics of its twists and turns in this special period. Furthermore, this paper analyzes the related effects such as the reconstruction of the industry chain and the aggravation of social problems. At the same time, this paper describes three response methods adopted by China: expand the alternative market, improve the added value, and establish an early warning mechanism. This paper helps understand and evaluate the impact of bilateral trade friction on Argo-forest products, refine the feasible suggestions as well as the mutually-beneficial expectation that is conducive to both China and USA, and finally summarize a new path that is advantageous to common development.

The rest of this paper is arranged as follows: the second part reveals the trends of Sino-US Argo-forest products’ trade since the trade friction; the third and fourth part explains the impact of trade friction on the industry chain and trade pattern of the Argo-forest industry; the fifth part elaborates China’s countermeasures; the sixth part concludes and puts forward suggestions.

2. The Impact of Sino-US Trade Friction on the Trade Volume of Argo-Forest Products

According to Figure 1, China’s trade volume of agricultural products with USA maintains a growing trend in general, but the changes are quite obvious. From 2015 to 2017, although the trade volume had declined slightly, it was stable en bloc. Since 2017, this trade volume has experienced a sharp decline. After April 2018, the Sino-US trade friction continued to escalate, and the United States began to levy a 25% tariff on about US\$50 billion of imports from China. As a consequence of this policy, the trade volume of agricultural products fell again, reaching its trough in 2019. However, after the adjustment of multiple policies and rounds of trade negotiations, the Sino-US trade friction has gradually eased. The trade volume of agricultural products also experienced a visible augmentation from 2019 to 2021.



Figure 1 China’s trade volume of agricultural products with USA from 2015 to 2021 Data source: Monthly Statistical Report on China’s Imports and Exports of Agricultural Products Photo credit: Original

However, China’s trade volume of woody forest products with USA presents a completely different situation. According to Figure 2, since the beginning of the Sino-US trade friction, the trade volume of woody forest products has been in sustaining reduction. From 2015 to 2017, the trade volume of this item was mostly in a state of growth, with an increasing rate of about 10.01%. When

the Sino-US trade friction broke out in 2018, in the initial stage, due to the panic purchase and hoarding measures taken by the two countries traders, the trade volume remained growing. But the increasing rate significantly decreased, only 2.18% more than that of 2017. In 2019, the Sino-US trade friction met an escalation, causing the trade volume to drop distinctly, 26.14% less than that of 2018. In 2020, this trade volume created a new low of only 13.283 billion US dollars [7]. The Sino-US trade friction seriously impacts the motivation of bilateral trade of woody forest products.

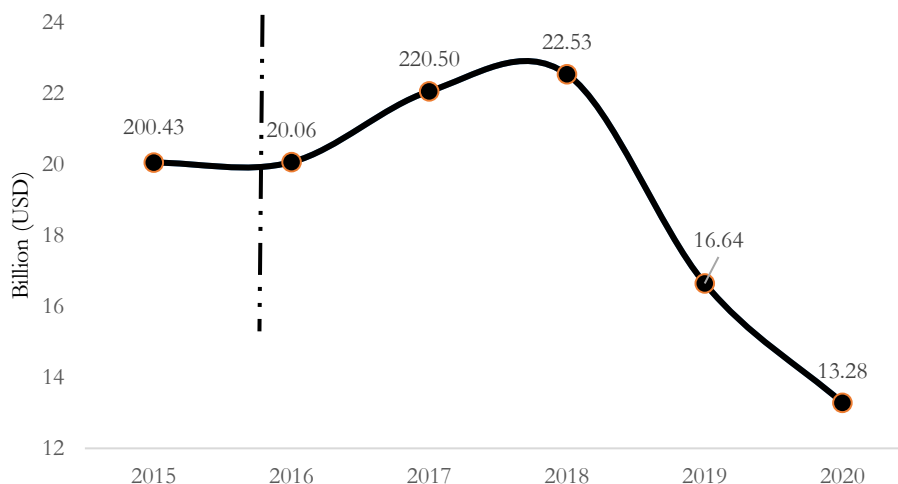


Figure 2 China's trade volume of woody forest products with USA from 2015 to 2020 Data source: UN Comtrade Database, <https://comtrade.un.org/data> Photo credit: Original

3. The Shock of Sino-US Trade Friction on the Argo-Forest Products' Industry Chain

3.1. The Shock on the Supply&Demand Chain

Both China and the United States are major Argo-forest producers and traders in the international market. Taking the trades of soybeans and hardwood as examples: on one hand, the amount of soybeans imported from USA to China account for 57.6% of the total amount of agricultural products imported from USA to China. The United States exports nearly 62% amount of soybeans into China [8]. On the other hand, China's demand for hardwood has been greater than supply for a long time, and international imports of woody forest products have become an important channel to fill the gap. After 2010, China and USA reached a deep cooperation relationship in this aspect: USA became the largest source country of China's hardwood imports, and China's dependence on imports of hardwood from USA has always been increasing [1].

With the aggravation of the Sino-US trade friction, China has shifted to trade Argo-forest products with other countries in Southeast Asia, Europe, South America, etc., altering the supply&demand chain of those products in the international market. Ever since trade friction started, the list of products levied with additional tariffs by both China and USA has been lengthened, and the additional tariff rate has been constantly increasing. This has had different degrees of influence on the transformation of both sides' economic structure and further affected the global supply&demand chain of Argo-forest products. The conversion from complementarity to competition in bilateral trade between China and the United States will provide an opportunity for China to strengthen economic and trade cooperation with other countries [5]. At the meantime, this will additionally exploit the diversified world's market and, to some extent, reconstruct the global supply&demand chain of Argo-forest products.

3.2. The Shock on the Value Chain

Under the influence of the Sino-US trade friction, the global value chain of Argo-forest products may be split and reform many other value chains, thus triggering the restructuring of the global value chain of related products. With the gradual weakening of Argo-forest trade cooperation between China and USA, new value chains and new trade cooperation patterns are taking shape step by step, which is not favorable for the efficient allocation of existing global Argo-forest resources and will lead to a rising in the cost of world's related trade [2].

Considering the self-interests in particular, the United States imposed tariffs on China, which is in the downstream position of the global value chain. The latter has to reduce its exports to USA in the short term to make up for the losses. But those Chinese Argo-forest products are of good quality and low price, they have already penetrated into the huge consumer market in the United States. A decrease of them absolutely induces a rise in price and much consumer burden in the domestic market of USA. The harm of corresponding tariff barriers will also be transmitted to those trade partners connected with China, exacerbating the rupture and restructuring of the global value chain.

4. The Change of Argo-Forest Products' Global Trade Pattern Made by Sino-US Trade Friction

4.1. Some Countries and Regions Earn Profit

The trade friction has affected China to transfer parts of the main export destinations of Argo-forest products to some European countries, Japan, South Korea, etc. That's a choice made after cautious consideration of the safety of the overall supply chain. Under the double attack of increased import costs and export tariffs, the strategy of concentrating export business on a certain country exposes its sensitivity and vulnerability. In order to risk-off, related foreign trade enterprises will transfer the export destinations of some Argo-forest products for seeking better developmental chances [4]. meanwhile, the evident increase in the market share of cotton from Brazil, Australia, Indonesia, and some other countries [9] also reflects that China is enriching its sources of import. For China, there is an over-dependence on imports from the United States. To improve this situation and minimize the negative effects, Chinese government chooses lots of countries from other parts of the world and let them become new origins of products.

4.2. Global Trade Pattern is in a Negative Tendency

While sending opportunities to some countries or regions, the Sino-US trade friction has brought a new challenge to the world's overall trade situation as well. The impact on the Argo-forest products' industry chain will certainly bring passive effects to the related trade pattern. Nowadays, the United States is pursuing an anti-globalization policy. For China, this will lead to a decrease in capacity utilization and cause a large number of export-manufacturing companies to go bankrupt. The pressure on employment in Chinese society is going to be greater. For the whole world, the globalization process will face a lack of power in the short term. The longer answer is that, in the field of trade, reducing or interrupting commercial intercourse with other countries will affect the redistribution of globalization benefits and seriously damage the globalization process [10].

5. Measures Taken by Chinese Government

It is marked that the Sino-US trade friction quite impacts the bilateral trade of Argo-forest products. The disruption of industry chain and the imbalance of trade patterns are the problems that need to be urgently solved. For properly handle those bad impacts of trade friction, Chinese government takes three measures: expand the alternative market, improve the added value, and establish an early warning mechanism. They are helpful to convert external pressures into powerful endogenous forces and bring high-quality development to the Argo-forestry industry.

5.1. Look for Alternative Products Steadfastly and Expand Alternative Market Actively

Facing the challenge of trade friction, China makes an effort to expand the alternative market. Hence, the domestic demand can be met and the supply gap can be filled. At the same time, China positively taps the potential of emerging markets, strengthens cooperation with Russia, African countries, and the EU, and establishes friendly relations with new trading partners. In this process, China focuses on establishing trade links with South American countries and ASEAN to reduce its excessive reliance on the US market [7]. China stays committed to the principle of mutual respect and mutual benefit, respects and complies with international trade rules, and steadily increases the level of opening-up of Argo-forest products. What's more, China firmly builds up a rich interest integration of Argo-forest products. That's why this nation can disperse the concentrated losses caused by the Sino-US trade friction with a plural trade pattern.

5.2. Improve Quality and Added Value of Products

At present, most of China's Argo-forest products have relatively low added value and lack core competitiveness, making them vulnerable to market space encroachment by some countries. Therefore, in the context of trade friction, Chinese government gives priority to improving the quality of Argo-forest products while formulating a long-term foreign trade strategy. China makes full use of actual Argo-forest industrial bases to implement industrial upgrading and boldly eliminates inferior-quality products. Besides, China enlarges its production line of high-quality products and enhances its core competitiveness. Through such measures, China is striving to make a greater voice in Argo-forest trade markets. That can increase the added value of Argo-forest products, improve the structure of foreign trade, and effectively resist the risks brought by the Sino-US trade friction [11].

5.3. Establish an Early Warning Mechanism of Trade to Calmly Guard against Unknown Hazards

In recent years, unilateralism, trade protectionism, and anti-globalization waves have become increasingly intense. The factors of uncertainty in the world economic development increase, posing a severe test to China. The Western countries led by the United States usually use the means of trade friction to suppress other markets for removing potential threats in their cognition. Because of that, China has gradually established a complete and effective early warning mechanism of trade friction in light of its situation. Also, it has conducted real-time dynamic monitoring and systematic analysis for potential risks. Thus, relevant departments and enterprises can make targeted adjustments as soon as possible. In this process, China takes advantage of scientific and technological progress to introduce big-data algorithms. This method can moderately enhance the capability of providing information about relevant non-governmental organizations related to Argo-forest industry. That helps China to be vigilant against abnormal changes in the international trade market. Ultimately, the "dual circulation" development system will obtain a promotion [1].

6. Conclusion

Generally speaking, before the outbreak of friction, trade of Argo-forest products between China and USA has shown a positive developmental state. It has become one of the important impetus for the economic development of those two countries. After the outbreak of friction, the Argo-forest products trade between both two countries has been greatly impacted. Industry chains faced reconstruction and reorganization, and Argo-forest trade in certain countries or regions would develop. But the overall impact on the world's related trade pattern did more harm than good. The changes in Argo-forest trade reflect the new situation people are facing after the Sino-US trade friction in a from-point-to-entirety manner. Sino-US trade friction is deeply related to all walks of life. Currently, the complexity of Sino-US trade friction and the ambiguity of its future evolution is still intensifying, there will be no winner without effective intervention.

Based on the research conclusions above, this paper proposes the following suggestions:

Negotiate with each other positively to resolve Sino-US trade conflicts. For many years, the economic and trade exchanges between China and the United States have been closely intertwined and inseparable. The improper trade protectionism and anti-globalization measures of USA are essentially a double-edged sword. Even if they are out of own developmental needs of USA, those measures will also bring bad consequences such as “taxing its internal enterprises and consumers”, eventually harming people’s well-being. Both China and the United States should deal with this trade friction through peaceful negotiations and reasonably resolve conflicts. Only in this way can those two countries bring the current “biased” trade situation back to track of mutual benefit.

Follow WTO’s framework and mechanism to maintain international trade order. The establishment of WTO (World Trade Organization) is the common selection of the world’s people. The purpose and basic functions of this organization are all for a core goal and fundamental purpose: establish an integrated, vibrant and lasting multilateral trade system. One of the good methods to maintain the stability and orderly operation of international trade is to follow WTO’s framework and mechanism. The unilateral trade policy carried out by USA for prioritizing itself has begun to nullify the multilateral trade rules formulated by WTO. At last, this kind of policy will lead to the detriment of the sustainable development of USA. Continuing to promote the diversification process of the international trade pattern is the way to keep up with the trend of the times. Meanwhile, China should respond to various difficulties imperturbably and make good use of WTO’s mechanisms and countermeasures. For now, China is striving to conduct a new developmental pattern called “dual circulation” ——domestic and overseas markets reinforce each other, with the domestic market as the mainstay. So as to successfully navigate through the once-in-a-century global changes.

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