

China's Responsibility for the Growth of Global Economy and People's Welfare: Facing the Challenges of Trade War Provoked by the United States

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Abstract: Since 2017, the United States has unilaterally provoked trade wars with many countries, including China, and has brought severe challenges to the growth of the global economy and people's welfare. China, which advocates and commits to building Community with a Shared Future for Humanity, has the responsibility to take proactive measures to minimize the negative effects of the trade war and contribute to the growth of the global economy and people's welfare. To this end, China needs, taking a long-term view, to make full use of the forced mechanism of the trade war, mobilize national consensus and enthusiasm, and firmly implement the innovation-driven development strategy. And to accelerate the transformation and upgrading of China's manufacturing, and promote China's manufacturing towards the mid- high end of the global value chains by resolutely guarding against systemic financial risks, strengthening national productivity, cultivating national value chains, and expanding global value chains.

Keywords: Trade War; Made in China 2025; Manufacturing Upgrade

JEL Classification: F130; O24

1. Introduction

With the evolution of international industrial division of labor from inter-industry division of labor to intra-industry division of labor, then to intra-product division of labor, economic globalization and trade liberalization have brought sustained growth in the global economy and people's welfare. However, since 2017, in spite of the strong opposition of countries in the world, the United States has provoked a trade war unilaterally, especially the Sino-US trade war has intensified and escalated. The current trade war between the two economic powers brings severe challenges to the growth of economy and people's welfare for the two countries and even the world.

Since the 18th National Congress of the Communist Party of China, China has always advocated and committed to building a Community with a Shared Future for Humanity. Facing the Sino-US trade war provoked by the United States, China has the responsibility to clarify the nature of the Sino-US trade war, adopt long-term effective measures, minimize the negative effects of the trade war, and contribute to the growth of the global economy and people's welfare. For this reason, this paper attempts to reveal the nature of the Sino-US trade war on the basis of carding out the trade war process, and proposes a path for China to respond to the challenges of the Sino-US trade war.

2. Methodology

Objective things are developing and changing, in order to understand their essence and reveal their development trends, we must connect and compare the different stages of their development. Historical analysis is a method of analyzing objective things and social phenomena from the perspective of development and change.

This paper uses historical analysis to analyze the history of the rise and decline of world powers, the history of the United States in maintaining world hegemony, and the evolution of the Sino-US

trade war, reveal the nature of the Sino-US trade war, and propose a path for China to respond to the challenges of the trade war.

After World War II, the United States maintained its indestructible world hegemony through scientific and technological hegemony, industrial hegemony, financial hegemony, and military hegemony. From the middle of the 20th century to the 1990s, the United States brought down the Soviet economy and led to the disintegration of the Soviet Union through the arms race. In the 1990s, the United States forced the yen to appreciate through the Plaza Accord, leading to a lost decade for the Japanese economy. At the beginning of the 21st century, the United States significantly weakened the competitiveness of the European Union by inducing the European debt crisis and Brexit. Judging from the changes in the world's economic and political pattern after World War II, any country, which challenges the global hegemony of the United States, suffered a heavy blow from the United States.

Since the reform and opening up, China's overall national strength and world influence have been continuously improved. Although China hopes to rise in peace, does not deliberately challenge the global hegemony of the United States, and is not willing to dominate the world economic and political structure, the United States deeply feels that its hegemonic position has been severely threatened by China in the fields of science and technology, industrial systems, finance, and military, and therefore, regards China as the most important global strategic rival. In Trump's first National Security Strategy of the United States of America (The White House 2017), he believed that China challenged the rights and influence of the United States in an attempt to erode American security and prosperity, and regarded China as its main global strategic opponent.

2.1 Challenges to the science and technology hegemony

From the perspective of R&D investment, in recent years, the Chinese government and enterprises have continued to increase the emphasis on scientific research and innovation investment. In 2017, the total investment in R&D reached 1.76 billion Yuan, second only to the United States, the proportion of R&D investment in GDP increased from 0.94% in 2001 to 2.13% in 2017, and the gap with the United States is gradually decreasing.

From the perspective of patent applications, in 2017, China's PCT patent applications reached 48882, second only to 56142 in the United States, which is the only country with double-digit annual growth rate. HUAWEI and ZTE respectively ranked first and second in the world in terms of the number of PCT patent applications.

From the perspective of corporate growth, among the world's top 500 companies that can best represent the status of the industry, in 2017 there were 53 companies with operating revenues of more than 100 billion US dollars, of which 22 were in the United States and 13 were in China. Japan, which ranks third, has only five. In addition, according to the Sino-US Unicorn Research Report jointly issued by Deloitte and CVINFO (Deloitte & CVINFO 2017), as of June 30, 2017, there are 252 Unicorn enterprises in the world, 106 in the United States, accounting for 42.1% of the total, ranking first in the world, and 98 in China, accounting for 38.9% of the total, ranking second in the world. And China and the United States each have five of the top ten unicorn companies in the world.

From the perspective of technological progress, China has been at the world's leading level in the fields of high-speed rail, quantum communication, 5G, nuclear power, mobile Internet, etc., and AI, VR/AR, big data, aerospace technology, biotechnology, new energy vehicles, etc. are all on the eve of breakthroughs.

In terms of scientific research talents, although China's demographic dividend is gradually disappearing, talents and engineer dividends are being highlighted.

To sum up, although there is still a large gap between the comprehensive scientific and technological strengths of China and the United States, China is rapidly changing from following to leading in some important areas, which has aroused great vigilance in the United States.

2.2 Challenges to the industrial system hegemony

With the deepening of industrialization, China already has all the industrial categories in the United Nations Industrial Classification, becoming the only country in the 21st century that has been certified by the United Nations with a complete industrial system. In 2010, China's total industrial output value exceeded that of the United States for the first time, and in 2015, its total industrial output value exceeded that of the United States and Japan.

From the perspective of the restructuring of the international industrial system, in 2013, China proposed the Belt and Road initiative, which not only helps countries along the Belt and Road to improve their infrastructure, but also helps them establish their own industrial systems. The establishment of industrial systems in these countries will inevitably subvert the core logic of the world economic structure since the birth of capitalism, and impact the global industrial system led by the United States.

From the perspective of the global value chain, China's manufacturing industry has been increasingly embedded in the global value chain, and it is gradually moving from the low-end of the global value chain to the mid- high end (Hong, 2017; Wang et al. 2017), and impacting on the high-end status of the global value chain where the United States has long been. This is the national manifestation of Christensen's low-end market disruptive innovation.

From the perspective of economic aggregate, on April 11, 2018, Dr. Shanwen Gao, chief economist of ESSENCE SECURITIES Co. Ltd., predicted in a speech at Tsinghua University that around 2028, China's economic aggregate will surpass the United States and become the world's largest economy, and the world economy inevitably forms the G2 pattern.

2.3 Challenges to financial hegemony

After the collapse of the Bretton Woods system, in 1973, the United States forced OPEC to accept the settlement of global oil transactions in US dollars, and realized the link between US dollars and oil, making each country's development linked with US dollars through oil, so as to truly establish a financial hegemony dominated by US dollars. At present, the financial hegemony of the United States is facing three challenges from China.

First, challenges from the new energy industry and the new energy automobile industry. In recent years, China has spared no effort to develop new energy industry and new energy automobile industry, tried to get rid of the dependence on fossil energy such as oil and coal, and promoted the adjustment of global energy structure, it has become an irreversible trend that new energy replace traditional fossil energy. When the economic development of all countries is no longer dependent on oil, the US dollar as the basis of oil settlement currency will no longer exist. The financial hegemony dominated by US dollars will be shaken and the internationalization of RMB will be accelerated.

Second, the challenges from Internet +. At present, Internet + has risen to China's national strategy. Mobile payments and virtual currencies generated under the background of Internet + have a disruptive impact on traditional payment methods. Currency has begun to withdraw from the circulation market. With the widespread use of mobile payments and virtual currencies around the world, the role of the US dollar as a means of currency payment will be significantly weakened.

Finally, challenges from the opening up of China's financial industry. In recent years, China is accelerating the opening up of the financial industry. After the successful operation of the Shanghai-Hong Kong stock connect and Shenzhen-Hong Kong stock connect, A-share is successfully incorporated into MSCI. China's crude oil futures are officially listed, and the Shanghai-London stock connect and CDR are expected to be realized one after another. Clearly, China's financial market keeps opening up, it is more convenient for international capital to enter and exit the Chinese market. With the continuous improvement of the international influence of China's financial market, as a baton for international capital flows, the role of the US dollar will be greatly diminished, and the United States' domestic consumption and economic development supported by increasing debt will be unsustainable.

2.4 Challenges to military hegemony

With economic development and scientific and technological progress, China's military strength has increased significantly in terms of scientific and technological equipment and modernization, the United States feels that its military hegemony has been severely challenged by China. In the 2017 annual report submitted to Congress by the U.S. Congress China Economic and Security Review Committee (USCC) on November 15, 2017, separate chapter on Chinese advanced weapons appeared for the first time, specifically introducing the development of China's advanced weapons and military technology in six fields, and vigorously rendering that the rapid development of China's advanced weapons in recent years may have significant impact on the United States. On May 21, 2018, the USCC issued a report completed by IHS Jane's, comparing the development of China's advanced weapon systems with the corresponding weapons of the United States. The report states that although the United States is still the world's only superpower, with the gradual decline of influence, the focus of world power is changing, the development of China's advanced weapon systems in the next 10 years will have a strategic impact in the Western Pacific.

To sum up, the United States has regarded China as the biggest threat and strategic rival to its global hegemony, then it will do the best to restrain the rise of China, and the Sino-US trade war has become the first step. Since 2017, the United States has carried out 232 and 301 investigations on China, suppressed HUAWEI, ZTE and other Chinese enterprises, restricted the Made in China 2025 plan, imposed tariffs on Chinese products exported to the United States and a series of other means, not only undermining the Sino-US economic and trade cooperation, but also bringing challenges to global economic development and people's welfare growth.

3. Results

By analyzing the evolution of the Sino-US trade war, it can be concluded that the United States has provoked the US-China trade war to achieving at least the following three goals.

3.1 To solve the US-China trade imbalance.

According to statistics from the US Department of Commerce, the US-China trade deficit increased from US \$ 600 million in 1985 to US \$ 375.2 billion in 2017, and reached a record high. Data from the General Administration of Customs and the National Bureau of Statistics of China show that the US-China trade deficit increased from US \$ 29.7 billion in 2000 to US \$ 275.8 billion in 2017. Although the statistics of the two sides are different, the United States believes that the overall trade deficit between the United States and China continues to expand and is not good for the United States. Therefore, the United States ignores its own reasons for the formation of the US-China trade deficit and hopes to resolve the trade imbalance between the United States and China through the US-China trade war and regain its leadership in international trade.

3.2 To Undermine the Made in China 2025 plan

From the perspective of the evolution and content of the Sino-US trade war, the United States not only imposed a large amount of tariffs on Chinese products, but also focused the list of tariffs on high-tech industries related to the Made in China 2025 plan; it not only imposed a technical blockade on China by protecting American technology and intellectual property rights, but also demanded Chinese government to stop the industry subsidies and other types of government support immediately related to the Made in China 2025 plans; it not only sanctions HUAWEI and ZTE, the leader 5G, but also prevents Chinese technology companies such as Ant Financial, HNA Group and NavInfo Group from entering the U.S. market; it not only restricts the investment of Chinese companies in US technology enterprises, but also strengthens the control of technology export to China, and strictly reviews the visit of researchers and managers of Chinese companies to the U.S. It can be seen that rather than solving the trade imbalance is the purpose of the Sino-US trade war, it is better to say that is an excuse for the United States. The deep purpose of the Sino-US trade war is to restrain the progress of science and technology and the upgrading of the Chinese industries by using

5G as a starting point to destroy the Made in China 2025 plan, and to suppress the Chinese industries in the mid-low end of the global value chain for a longer time.

3.3 To plan a destructive financial war

Although the United States wants to comprehensively restrain the rise of China through scientific and technological hegemony, industrial system hegemony, and military hegemony, what concerns the author most is the financial hegemony of the United States. The bursting of the Japanese economic bubble in the 1980s, the Asian financial crisis in 1997, the European debt crisis in 2009, and even the Hong Kong event in 2014 were all closely related to the flow of international financial capital affected by the United States. But so far the United States has not been able to create a financial crisis in China, the fundamental reason is that China's financial market has not been fully liberalized. If the United States uses the trade war as a means to force China's financial market to be more open to the world, especially to the United States, allowing more international financial capital to flow freely, then the United States will have the opportunity to use its financial hegemony to plan a financial war against China. Coincidentally, since 2017, China is significantly relaxing financial market access to international capital, orderly opening up bank card market, liberalizing the business scope of foreign insurance brokers, and relaxing or eliminating the restrictions on foreign shareholding ratio in banks, securities, fund management, futures, financial asset management etc.. On June 29, 2018, Bridgewater, the world's largest hedge fund, officially entered China as a wholly foreign-owned enterprise. On January 15, 2020, the Economic and Trade Agreement between the both requires China to fully open banking, insurance, securities, funds, futures and other financial fields to the United States.

For the current China, not only the capital market is not strong enough, but the potential systemic risk of the real estate market needs to be resolved urgently. If a large number of international capital flows into capital market and real estate market, the bubbles will be larger and larger, when international capital quickly withdraw from China, the bubble will burst and lead to systemic financial risk, it will be very hard for local governments, real estate enterprises, banks and residents to bear, and China's financial market and economic system will be severely damaged, even foreign exchange reserves will be plundered. By this way, the ultimate goal of the United States to restrain the rise of China will be temporarily achieved.

By analyzing the causes and purposes of the Sino-US trade war provoked by the United States, it is found that the essence of the Sino-US trade war is that the United States uses 5G as a starting point to destroy the Made in China 2025 plan and even possible to plan a highly destructive financial war, thus to restrain the progress of science and technology and the upgrading of the Chinese industries and suppress the Chinese industries in the mid-low end of the global value chain for a longer time, so as to restrain the rise of China and maintain the global hegemony of the United States. Therefore, the Sino-US trade war is no longer a simple trade war, but a war of national destiny and a lasting war without gunpowder smoke, which brings severe challenges to the growth of global economy and people's welfare.

4. Discussion

In the short term, the Sino-US trade war will not benefit the economic and social development of China, the United States and even the world. However, in the long run, the Sino-US trade war is a double-edged sword for China, which makes the Chinese government and people more aware of the huge gap between China and the United States in the fields of scientific and technological innovation, key core technology, high-end manufacturing, military strength, financial services, quality education, talent integration, etc., so that in the process of the game with the United States, the Chinese government and people can neither feel resentful and discouraged, nor blind optimism and confidence. It is necessary for the Chinese government and people to maintain objective determination, make full use of the forced mechanism of the Sino-US trade war, mobilize the consensus and enthusiasm of the whole nation, form a national joint effort to support independent

innovation and the development of high-tech industries, and strive for self-reliance of science and technology.

The manufacturing is the main body of the national economy and the foundation of the nation. Since the beginning of industrial civilization in the middle of the 18th century, the history of the rise and fall of world powers and the history of the development of the China have repeatedly proven that without a powerful manufacturing, there will be no country's prosperity. After clarified the essence of the Sino-US trade war and the basic attitude China should hold, in the current situation, China should not focus on the short-term trade war but on the long-term, firmly implement the innovation-driven development strategy, accelerate the transformation and upgrading of China's manufacturing and move towards the mid-to-high end of the global value chain.

4.1 Resolutely guarding against systemic financial risks

General Secretary Jinping Xi emphasized that finance is an important core competitiveness of the country and financial security is an important part of national security. Facing the powerful financial hegemony of the United States, only by firmly holding to the bottom line that no systemic financial risks occur, can China build a solid defense line to win the Sino-US trade war and provide the necessary time for the full rise of China's manufacturing. For the current economic structure and financial structure of China, the most likely systemic financial risk is not in the capital market, but in the real estate market, only by keeping the real estate market without rapid decline, can China keep the defense lines of local government debt risk, commercial bank risk, capital market risk and economic risk, and keep the most important point of the Sino-U.S. trade war. Therefore, China must highly recognize and fully evaluate the influence of American financial hegemony, not only the financial sector, but also the power of the country to coordinate planning, top-level design, national layout, and systematic prevention. It is necessary to establish and improve a financial supervision system and tightly control internal risks, and fully prevent the input risks in the context of the two-way deep opening of the financial industry.

4.2 Strengthening national productivity

In order to cope with the Sino-US trade war, it is not enough to promote the upgrading of China's manufacturing from the perspective of enterprises and industries. It should be promoted from the perspective of national productivity through breakthroughs in key areas such as education reform, scientific and technological innovation, institutional change and cultural cultivation, and promote the state, industry, enterprise and resident together to strengthen the country's material, spiritual and institutional productivity.

- Education reform

Education and talent are the cornerstones of the United States' global hegemony, and it is also the inexhaustible strength of China's manufacturing upgrade and the rise of great powers. At present, the socialization of education complaints in China and the larger scale and lower age of studying abroad reflect the query of Chinese parents on the current education system. China must place education in the strategic position of priority development, and build a country with high-level education and talents. The author believes that the key to solving China's education problem is not to repair the education system and mechanism, but to fundamentally change the talent evaluation and selection mechanism. The comprehensive innovation of the talent evaluation and selection mechanism is used as a catalyst to implement improvement project of national innovation starting from early education and kindergarten, cultivate continuously children's innovative spirit, innovative consciousness and innovative ability, drive the active adjustment of the entire education system and mechanism. By this way, more practical talents with moral character, critical spirit, exploration and research ability will be cultivated, and the fading demographic dividend will be transformed to the talents and engineer dividend.

- Scientific and technological innovation

As General Secretary Jinping Xi said, the core technology is the most important strength for a country, and only by mastering the core technology can we truly grasp the initiative of competition and development, and fundamentally guarantee the economic, military and other security. To this end, China must regard comprehensive innovation centered on scientific and technological innovation as the primary driving force for manufacturing upgrades. In addition to focusing on education and talents, it is also necessary to seek breakthroughs in the following aspects. First, strengthen basic scientific research. Increase investment in human, material and financial resources in the field of basic scientific research, pay more attention to original innovation and disruptive technologies, open the green channel connecting basic research and technological innovation, and strive to drive breakthroughs in applied technology groups with basic research. Second, fully implement the open innovation. Facing the US technology and talents blockade, China should more actively integrate into the global innovation network, participate in the allocation of global innovation resources, and accelerate the integration of external and internal technology resources. Third, strengthen the construction of the standard system. Adhere to quality as the lifeline of building a manufacturing power, and build an international standard system. On the one hand, guide and support the company's product quality to actively integrate with international standards. On the other hand, strive to create a number of internationally recognized Chinese standards to promote the transformation of China's speed to Chinese quality, and Chinese products to Chinese brands. Fourth, make breakthroughs in key areas. Give play to the institutional advantages of focusing the full resources of the country on major tasks, select a batch of bottleneck technologies, support a group of leading enterprises, cultivate several key industries, integrate resources and strengths, so make multidimensional breakthroughs. Fifth, cultivate more and more industrial workers. Establish a cultivating system for industrial workers' knowledge and skills, significantly increase the income level and social status of industrial workers, build a knowledgeable, skilled and innovative group of industrial workers for China's manufacturing upgrading and independent on science and technology.

- Institutional change

During the game with the United States, China must not be threatened to reduce supports for the industries related to the Made in China 2025 plan. Instead, China need make greater efforts to remove the institutional obstacles to innovation, entrepreneurship and the upgrading of manufacturing, and release more institutional dividends. Firstly, deepen government management and service system reform. Break administrative monopolies and industry barriers, and let the market truly become the decisive force for the allocation of innovative resources, so that enterprises can truly become the subject of technological innovation. Secondly, optimize the incentive mechanism for the subject of innovation. Use fiscal, tax, and financial policies to encourage enterprises to increase innovation input, reduce their overall costs, and enhance their innovative profitability. Thirdly, perfect the coordinated promotion mechanism for the transformation of scientific and technological achievements. Strengthen the protection and operation of intellectual property rights, guide the government, enterprises and research institution to strengthen cooperation in accordance with market rules, and accelerate the transformation of scientific and technological achievements. Fourthly, improve debt and equity financing mechanisms. Expand direct financing channels for enterprises, and promote financial services to better serve the real economy. Fifthly, further optimize the business environment for innovation and entrepreneurship, and promote the in-depth development of mass entrepreneurship and innovation. Finally, strengthen the construction of social integrity and promote the institutionalization of integrity construction.

- Cultural cultivation

Innovation is the soul of a nation's progress and an inexhaustible source of prosperity for China. To achieve the upgrading of China's manufacturing and the great rejuvenation of the Chinese nation, it urgently need to create a harmonious social atmosphere that encourages innovation and tolerates failure, let innovation prevail in whole society. Vigorously promote the scientific spirit of seeking truth and being pragmatic, courageous to innovation, pursuit of excellence, solidarity and

cooperation, selfless dedication, encourage academic contention, stimulate critical thinking, and promote academic freedom that is lively, unconstrained, and daring to invent and create. Establish a value orientation of advocating innovation and entrepreneurship, and guide more talents for innovation and entrepreneurship. Strengthen the publicity of scientific and technological innovation, report on typical stories about innovation and entrepreneurship, and further form a fashion of respecting labor, knowledge, talents and creativity. Carry forward the spirit of model workers and craftsmen, and create a glorious social fashion of work and a professional fashion of striving for perfection.

4.3 Cultivating national value chains

The ultimate goal of China's manufacturing upgrade is to move towards the mid- high end of the global value chain, but it must be based on current realistic conditions and comparative advantages. If China's manufacturing move blindly to the mid-to-high end of the global value chain, it will not only be difficult to achieve a upgrade of comparative advantage, but may lose its existing advantages and new development opportunities brought about by the division of global value chains. Many researches show that although the China's manufacturing is increasingly participating in the division of global value chains, it is still generally in the mid-low end of the global value chains (Chen 2015; Yin 2016; Fan et al. 2016; Su et al. 2017), and has been strongly hindered by developed countries (Huo and Zhang 2016; Wang et al. 2017). In the Sino-US trade war, it is very obvious that the United States wants to suppress China's manufacturing in the mid-low end of the global value chain for a long time.

Facing the dilemma of low-end lock-in and high-end blockade, China's manufacturing should make full use of the advantages of the industrial system and domestic market, focus on the Made in China 2025 plan, and actively cultivate and build national value chains led by domestic enterprises. First, build an excellent industrial system. With the help of the complete industrial sector, China need to build and optimize the industrial chain and industrial network of the manufacturing, play the role of the industrial technology innovation alliance and industry associations, and promote the integration of enterprise resources and capabilities by taking the enterprise as the subject and the market as the guide, so that accelerate the high-quality development of the manufacturing. Second, cultivate leading enterprises. Make full use of the advantages of domestic market, grasp the trend of consumption upgrading, actively cultivate competitive leading enterprises and unicorn enterprises, build national brands, and lay a solid foundation for China's manufacturing to move towards the mid-high end of the global value chains. Third, accelerate the upgrading of regional value chains. Actively guide the value interaction and circulation among different regions, and realize the multi-level and all-round value chain upgrading of all regions in China. At last, promote the coordinated upgrading of industries and cities. Starting from the division of labor and cooperation between industries and cities, promote the integration of China's manufacturing development and urban function with the help of the development of the advanced modern producer service.

4.4 Expanding global value chains

While cultivating national value chains, China's manufacturing should grasp the new opportunities brought about by the deep evolution of global value chains, actively integrate into global value chains, promote the efficient connection between national value chains and global value chains, and accelerate the progress towards the mid-high end of the global value chains. Firstly, accelerate the transformation and upgrading of traditional manufacturing. Deeply integrate the new generation of information technology with traditional manufacturing, promote the smile curve of traditional manufacturing rise at the bottom and extend at both ends, and continuously expand and increase the added value of the manufacturing. Secondly, vigorously develop strategic emerging industries. Get out of the comparative advantage trap of resources, actively cultivate advanced production factors such as human capital, knowledge, technology and systems, strengthen independent innovation capabilities, and accelerate the development of strategic emerging industries and high-tech industries with higher added value. Thirdly, actively restructure global value chains.

Make full use of the opportunities brought by the Belt and Road initiative to actively build a new global value chains.

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