The Challenge, Conflicts and Problems of the Trade between China and Western Countries and its economic development

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I. Introduction

This paper will analyze the past, present and future of Chinese International trade and its conflicts with Western countries in trade in the past and present.

Since 19th Century, when Western goods arrived China, conflicts between the government of Qing Dynasty and Western countries became more and more larger, which finally caused a series of wars between China and the 8 Western countries including Japan; and all the wars finished with the failures of China. However, this situation was totally changed in the last 40 years due to the free trade international market.

Chinese economy and industrialization was developed very fast since 1949, and in the last 40 years its GDP has reached the second place in the world. The last economic uprising was mainly due to the hard working of the Chinese people and the foreign trade with mainly Western countries. From 1979 to 2016 US-China Trade increased 211 times.

See the following table:

China’s Trade with USA

- 1949-1970 = 0
- 1979 = $ US 2,500,000,000
- 2016 = $ US 519.6 Billion (China’s version)
- = 598 billion (USA version)
- From 1979 to 2016, US-China Trade increased 211 times
- 2015: US Goods exports totaled $ 116 billion, imports totaled $ 482 billion with the Trade deficit with China was 336.2 billion
- Investment from China to USA in the last 6 years created 2,600,000 jobs
However, China has been facing more and more difficulties in its exportation of industrial goods and more and more conflicts with the Western society on investment, tax, natural recourses, and market. This paper will try to analyze the existing problems and conflicts in China’s exportation in the past, present and future, to explain the stratagems and tactics China is following in order to maintain its economical grow within the current international market structure; and also will indicate the possible challenges that China may face and offer some alternatives in economical planning and foreign trades.

II. Chinese International Trade since 200 BC

According to the recent archeological discovery, the Chinese agricultural civilization started 18,500-22,500 years ago in the Yangtze River Region and the commercial trade started as early as 500 BC during the Shang Dynasty. In the Han Dynasty, Chinese goods including jade, silk, etc. were sold in European Market, i.e., the Roman Empire Era in Europe. During the 11th Century- 13th Century, Chinese porcelain, tea, silk, artistic works were sent to European countries in exchange of gold and silver. The two silk roads played the key roles in Chinese foreign trade: One inner land road from Chang’an (Xi’an) to Paris, and the other, from Quanzhou and other Chinese ports of the Pacific Ocean to India-Arabic countries, and maybe even some Western European countries. In 14th Century, Zheng He’s fleet of more than 200 big ships navigated Indian Ocean and Pacific Ocean, and reached far West for free trade with India, Arabic & European countries. Some Western scholars even demonstrated that Zheng He’s boats arrived America more than 100 years before Colon.

This Land Silk Road of 7,000 km that was used to transport Chinese silk at the very beginning began during the Han Dynasty (206 B.C.-A.D. 220). Over 2,100 years ago, Zhang Qian (about 164-114 B.C.), the Han Dynasty envoy, expanded the trade routes to central Asia. Since then, commodities including silk, tea and chinaware have been transported from Chang’an (today’s Xi’an, capital of Shaanxi Province) to central Asia, west Asia and even Europe via the trade route and commodities from these destinations also found their way back to China. Camel Caravans in the Heart of a Desert in Gansu Province in Western China constituted the only means of transportation. Obviously, at this point of time, China always suffered trade surplus in business with all the European countries, Japan, and India.

III. International trade of China in the Modern Age

Since 19th Century, when Western goods arrived China, conflicts between the government of Qing Dynasty and Western countries became more and more larger and the trade surplus in favor of China became a
big problem for the Western countries. This caused finally a series of wars between China and the 8 Western countries including Japan since the first half of 19th Century. All the wars in Chinese territory including the Russian-Japan war finished with the failures of China and Russia.

However, Western Free Trade Slogan or policy was not very favorable to Western countries in China like in the rest of the world, since Chinese goods were cheaper and of better quality, even though they were no made with powered machinery. Under special international market, in order to keep the trade balance with China, England brought huge amount of Opium to Chinese territory to avoid the loss of its gold and silver. When Qing Dynasty Empire realized the harm of opium to Chinese people, the Chinese government ordered to stop the opium importation from India through Western Indian Company. As a result, a military action was taken by England to invade China in 1840. Afterwards, other invasions of Western countries and Japan occurred from the West and Japan one after another during one century in order to "balance the trade". Only during the 60 years from 1840 to 1900, because Chinese army was always defatted in all the wars, China was forced to pay almost 700,000,000 ounces of silver to 7 European countries and Japan. In the War of 1901, China signed the “Xinchou Peace Agreement with 11 European countries and Japan to pay in total another 980,000,000 ounces of silver. Since then, China had to pay annually 1,000,000,000 ounces of silver to all the Western countries. This amount of money the Chinese government had to pay per year equals to 10 times of the total China’s annual governmental income.

During this period, although there was important trade between China and the Western countries and Japan, and China exported even no less goods to them, China lost all the money accumulated for centuries. All the gold and silver went to the pocket of Western powers and Japan, and Qing Dynasty was in real economic and financial bankruptcy. Since the government had to collect more tax each year, the Chinese people in general were also in bankruptcy except only a few corrupted high-ranking governmental officers and very rich commercial business people.

IV. The economic development from 1949 to 2017

1. Economic development from 1949 to 1978

Chinese economy was developed very fast since 1949, and after the 4 five-years-economic state plans, at the beginning of the 70s of the last century, China had almost finished its basic modern industrialization process, and set a near completed industrial system and educational system. China had reached the industrial production level in 30 years that Western
European countries achieved with 200-300 of efforts, even though the West and Japan applied very strict economic and technologic blockade to China.

In the last 37 years or so since the Economic Reform and so-called Open Door Policy, China’s GDP has reached the second place in the world economy, thanks to the foreign investment and favorable infrastructure that Chinese government built. Most importantly, the last economic uprising was mainly due the 290,000,000 (that is the total USA population) of extremely disciplinary, well educated, cheap, and hard working Chinese labor forces from agricultural land. Chinese government became almost the richest in the world with the foreign trade with mainly Western countries. The total foreign currency accumulated reached 4 trillion American dollars. (the accumulated American debt is now more than $20 trillions). We should be very clear that it has been the international market that contributed much more than the internal or national market for the GDP contribution. Foreign trade was the main sources for this financial achievement of China.

As result of industrialization of China, comparing the amount of production between 1949 and that of 1978, all the main industrial areas of industrial production grew from 40 and 100 times. It is important to address that this economic development had nothing to do with international market. The only Chinese exportation was mainly agricultural products in exchange of Russian technology and technic equipment. The production was served to the internal market.

2. Chinese economy from 1978 to 2016

In order to show the real economic growth of China since 1978, see the following statistics:

1) GDP Growth:
   a. 1992: $ 0.4226 Trillion= 6.74% of USA, and almost equal to the GDP of NY State.
   b. 2013: ¥56 trillions (Chinese Yuan)= $9.4 trillions (dollars)
   c. 2016: GDP of China = $ 11 Trillion and USA = 60.54% of USA ($ 18 Trillion)

2) GDP Growth Rate: From 1988 to 2015 the average of GDP annual increase was 9-10%, and in 2016 it was 6.7-6.8%.

3) Now the GDP of China occupies the 17.3% of the total GDP of the world.

As we pointed out before, the main reason for the slowdown GDP growth process is the decrease of foreign trade.

3. The relation between the GDP growth of China and its International trade growth from 1978 to 2017
After China entered in WTO, China managed to have very rapid GDP growth due to the exportation, and the GDP growth slowed down also has been due to the exportation. Let us see the following statistics:

Although China’s international business partners are Europe, USA and Russian, and Japan is the 4th, we show the China-Japan trade as an example:

1) China’s International business with Japan in recent years:

- 2002- China-Japan importation & exportation = $101,900millions = 16.4% of the $ 620,800 millions of the total international business.
- 2002 China total importation = $295,200 millions
- 2002 China total exportation = 325,600 millions
- 2011, China-Japan importation & exportation = 342,900 millions = 9.4% of the total international business of China $3,642,100 millions
- 2011, China importation = $194,600 millions
- 2011 China exportation =$1,743,500 millions

Rate of increment of foreign trade is much lower than previous years

2) China International Trade in 2016:

- Total exportation and importation: $ 4.16 Trillions, including $ 2.21 Trillions of exportation, 7.9% increase; importation of $ 2.197 trillions = 9.3% increase.
- Common articles’ exportation and importation = $ 2.197 trillions with 9.3 % of increase, and manufactory articles’ trade = $ 1.358 trillions with 1 % of increase.
- Common articles’ exportation = $ 1.087 trillions, with 10.1 of increase; and manufactory articles’ exportation = $ 0.86 trillions with 0.2% of decrease. Only military industry exportation = 5th in the world annual increase = 162%

However, China has been facing more and more difficulties in its exportation of industrial goods and more and more conflicts with the Western society on investments, tax, natural recourses, and market.

V. Today’s Problems and Conflicts in China’s international Trade

China has been facing more and more difficulties in its exportation of industrial goods and more and more conflicts with the Western society on investments, tax, natural recourses, and market. As a result, its economic growth has been slowed down.
We have analyzed succeeds, problems and conflicts in China’s exportation in the past, now we will analyze the existing problems in international trade, specially those problems and conflicts with Western countries. We are showing some of the statistics as follow (see tables on Power Point presentation):

1. Too much GDP grow: China is facing a big problem of manufactory industry over-growth and important raw material shortage in general:

   • From 1984 to 2015, the accumulated goods in storage has reached 27,200,000,000 Yuan.
   • The production of steal in China reached 900,000,000 tons, that is the total production of steal of the 7 most industrial powers of the world including USA. In the history, the highest production in the word was 300,000,000 tons. In 2015, 47% of the steal industry in China suffered loss. From 2000 to 2007, it’s production increased 4 times. China must cut 60,000,000 tons of productivity in 2017.
   • In 2014 China became the No 1 electricity power in the world (1,360,000,000 kw), and China is planning to cut its original project to building too many electricity generation factories.

2. Over growth of industrial capability and low industrial productivity:
   (see the table)
   Blue line = Industrial capability
   Rad line = industrial productivity

3. Shortage in agricultural production and some important raw materials:

   • Importation of Cereals – 20% increase
   • 2012: annual production of petroleum in China is 207,480,000 ton, increasing 1.0%; but imported 271,090,000 ton, increasing 7.3%, occupying 56.4% of Chinese Market need.
   • China manufactory industry reached the lowest point in the last 30 years since the Economic Reform.

4. Food industry and foreign trade:
   Food: Importation increased and exportation decreased
   2016- Importation of 60,000,000 ton of cereals in total

5. 2016 shortage in agricultural production and some important raw materials
   Importation of soybean in 2012, 80% from USA
   in 2016: USA exportation to China greatly increased
6. Each USA State's Percentage of exportation to China and its increasing since 2000
7. Foreign Trade Condition for China: 1980 = 100%, now 60%

**VI. Reasons why foreign trade is slowing down**

1. World economy is in bad situation, and so far it is not seen as big hope for improvement.
2. Chinese Yuan in exchange of foreign currency has been up and down.
3. Big excess capacity in manufactory production
   Over production
4. Blue collar workers salary and wage are higher than many under-developed countries now.
5. Raw materials are higher than before.
6. Industrial structure problem: Lower quality products, high energy consumption and labor-intensive industries.
   - 7. The economical development depends too much on foreign investment.
   - 8. Foreign higher technology factories which occupy big percentage of exportation value is moving to other under-developed countries offering lower wage or to their own countries.
   - 10. Too much capital has escaped from manufacture to Real State Industry at big cities and East coast areas.
   - 11. Fictitious or virtual economy is gaining more and more importance in comparison with real economy in Chinese economic mechanism.
   - 12. International trade obstacles and increase rate changes of importation tax from Western Countries.
   - 13. Punitive procedures of USA and European Countries towards Chinese importation goods for some important traditional exportation products, etc.
   - 14. Trade War between China and Western countries including Japan.

We will show some statistics and pictures as additional information to support the above-mentioned problems:

1) Fighting between China and Japan for controlling Asian Trade
2) Slower GDP growth with faster capital growth
3) Rapid drop of capital productivity
4) China real industry index
5) One par of Nike sport shoes made in China costs more than 124 dollars in International Market, and with discount is $100. Raw material + labor = $17, discount = $24, Store gain = $6, Tax = $3, and the American Company net gain more than $50.
6) Financial Situation in Trade caused potential debt crisis
7) External and Internal Debt Crisis at the Door
VII. China’s Stratagems and Solutions to overcome the conflicts and problems so far

We will explain the stratagems and tactics Chinese government is following in order to maintain its economical grow within the current international market structure; and also will indicate the possible challenges that China may face and offer some alternatives in economical planning and foreign trades.

1. In 1913 China lunched the “One Belt and One Road” (Silk Road Economic Belt and the Maritime Silk Road), Initiative in order to keep the internal economical grow. (See the following Power Point presentations)
   1) Since the TPP is in danger without USA participation and the Asian Development Bank has opened, China is in favorite condition to go to the West to develop the “One belt and One Road” project not without regional conflicts problems and with some succeeds in the last few years, ex. Pakistan, Burma, Russia, England, Shanghai Cooperative Organization, Malaysia, Tanzania, Saudi Arabia, Nigeria, etc.
   2) There are 60 countries, occupying 41% GDP—Globalization of China’s version
   3) 2017 China and Arabic countries’ Trade Progress: China and Saudi-Arabia signed contract of cooperation with $ 65,000,000,000.
   4) Kazakhstan-China Railroad to open its Sea Transportation
   5) 2016: High Speed Train= 10,000 km, 50% of the world. Infrastructure investment in foreign countries.
   6) Total foreign investment = more than 1 trillions

2. Transferring from high energy consumption and labor-intensive industry to energy save & high tech-Industries (Some examples: See the following Power Point presentations)
   1) In 2016, Huawei Cellular net profit was 520,000,000,000 yuan- with 32% of increase than last year, 60% of the profit came from exportation. Now Motoz is more competitive than Apple products in market.
   2) Chinese Cellular in Japan: ½ price of Apple, but with some new functions that Apple do not have
   3) Nucleus Energy with new Chinese Technology
   4) The High-Tech Research Center—Hong Kong-Macao-Guangdong

3. Mixt Economy: State Own Industries started to accept private investment to conduct private capital to real economy

4. Reform of the supply-side instead of focusing on the demand-side in order to solve the over-production problem in favor of transferring projects: (See sample pictures:)
   Ex. 1) In steal industry 50,000,000 tons production capability will be cut in this year.
   2) Bridge between Zhuhai-mainland, Hong Kong & Macao in construction-the largest in the world

5. Enlarging infrastructural economy in China and in other countries
The highest bridge in the world in construction (See sample pictures:)
1) Bank of China 117 in Tianjing City-- the 5th highest skyscraper in the world
2) High Speed Train – 19,000 km, No 1 in the world

6. Enlarging the Investment in urbanization：（See sample pictures）
   1) 1978: 17.92 of urbanization, and now: Near 48.73% of Urbanization.
   2) Immigration from countryside to urban areas.
   3) Real estate industries remains high in the last 40 years

VIII. Conclusion:

The 6 governmental economic development procedures have been conducted since 2013-2015, and so far there are some good results and also bad results. At the same time, there are also many new problems and conflicts arising. Chinese economists and scholars are not agree each other regarding those governmental polices and the many other suggestions and critics in order to improve Chinese economy and international trade. Further conflicts between China and the West regarding the international trade are inevitable. No one can predict or can be sure about what will look like the international trade war in the near future and in the future under current world economic system and market macro-context and the neo-liberalist device.