MASTER THESIS

The Antagonistic Sino-US Trade Relations under The Trump Administration: US's Inclination Towards Anti-Globalization and the Ongoing Power Transition in International Order

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Abstract

The recent Sino-US trade relations is going through a hard time. The Trump administration alleged that the unfair Sino-US trade relations has caused large trade deficits and US people suffered a lot from it, so it should be “rebalanced”. Then, the so-called “trade war” has been triggered by the US recently. However, the Sino-US trade relations should not be blamed for the large trade deficit of US, and there is a deep rationale behind US’s recent actions on trade issue especially on “trade war” against China.

The large trade deficits of US are not a pure result of Sino-US trade relations.The direct reason for Trump to impose trade sanctions on China is to reduce US’s large trade deficits. However, the actual causes of large trade deficits of US lies in different economic structures of both countries, the positions of both countries’ divisions in global value chain, the special position of the U.S. dollar, the low saving rate and high consumption pattern of US economy, and heavy restrictions on the export of high technological goods to China.

Externally, US’s relative gains in the current international system is declining compared to China, including declining relative gains in economic power, military power and soft power. The gap between the rising power China and the hegemonic power US is gradually narrowing down, challenging the leadership of US in the international system. Internally, US is gradually turning to anti-globalization especially since financial crisis in 2008, because of the negative effects of globalization. The anti-globalization inclination of US is the public opinion foundations for the recent “trade war” provoked by the Trump administration. It pushes forward the trade protectionism of the Trump administration, making the president Trump able to realize his protectionism promises made in election campaign.

The main findings on this thesis centers on the deep rationale behind the recent antagonistic Sino-US trade relations under the Trump administration，that the US is threatening by China as a challenger to its hegemonic position because of the declining relative gains in the current international system. What’s more, US’s inclination to anti-globalization from the public makes the Trump administration able to act in a trade protectionism basis. According to hegemonic stability theory and the following arguments on relative gains, the US chose to exert its power in trade relations with China in order to contain China from challenging the hegemonic position of US.

Keywords: Sino-US trade relations; Actual causes of US trade deficits; Relative gains; Anti-globalization inclination; Power transition;

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1. Background Introduction

“American First” is the basic pillar for Trump’s campaign and administration agenda. While the tax reform is moving forward in 2017, the so-called trade war has been provoked unilaterally by Trump in 2018. Ever before the inauguration of Trump’s presidency, Trump tended to name China as “currency manipulator” and threaten to impost 45% tariff on imports from China. Since early 2017, this bilateral trade relations between US and China has been going through fractions and cooperation, and eventually turned out to be the possible trade war for now.

There are negotiations and possible cooperation once. The first summit meeting of the China-U.S.in April 2017 finalized the “100-day plan”, which mainly concerns the fields of agricultural products, finance, and energy. In that month, the United States did not name China as a "currency manipulator." In July 2017, the first round of the China-US Comprehensive Economic Dialogue was held, confirming the one-year plan for the development of the Sino-U.S. economic cooperation. However, no agreement was reached on certain matters, which was shown at the abrupt cancellation of originally scheduled immediate press conference after the talks and no joint statements were released afterwards. In November 2017, Trump visited China and made deals reached 253.5 billion U.S. dollars in trade and investment projects. In February 2018, the Politburo member Liu He visited the United States for five days during the Third Central Plenary Session of the 19th CPC Central Committee to negotiate with US on Sino-U.S. economic and trade cooperation.

The economic and trade frictions gradually are gradually rising. In April 2017, the United States initiated the “232 investigation” of imported steel and aluminum products on the ground of “threats to national security”. In May 2017, the US International Trade Commission respectively launched the “201 Survey” on imported crystalline silicon solar cells and components, large domestic washing machines. in August 2017, Trump authorized the launch of the “301 Survey” on China to investigate China’s laws, policies, and practices related to technology transfer, intellectual property, and innovation. In

January 2018, Trump approved the imposition of a protective tariff on imported solar panels and washing machines (“201 investigation”) from February 7, which is its first tariff order. On March 8th, Trump approved a 25% and 10% tariff on imported steel and aluminum products ("232 survey") from March 23, temporarily exempting most countries apart from China. On March 23rd, Trump’s “301 Survey” report to China issued by the U.S. Trade Representative’s Office instructed the relevant authorities to impose a large-scale tariff of 25% on high-end manufacturing products imported from China, and limit Chinese companies' investment and mergers in US. At 7 o'clock of that day, China introduced countermeasures against the US concerning trade volume of 3 billion in agricultural products and primary products to balance the loss of tariffs imposed on imported steel and aluminum products by the United States.

"The 301 investigation" was legitimated from article 301 of the Trade Law in 1974 of the United States. This provision authorizes U.S. trade representatives to initiate investigations on “unreasonable or unfair trade practices” of other countries and may, after completion of the investigation, recommend the U.S. president to implement unilateral sanctions, including withdrawal of trade preferences, levying retaliatory tariffs, etc.Targets of 301 investigations this time mainly include: Does the Chinese government compel U.S. companies to transfer technology; Whether it weakens U.S. companies’ ability to negotiate on technology in China; Does it directly or unfairly help Chinese companies acquire U.S. advanced technology and intellectual property rights; Is it illegally invaded commercial secrets? It is the sixth time the United States has used Article 301 against China since April 1991, October 1991, June 1994, April 1999, and October 2010.

According to the rules of Article 301, the U.S. Trade Representative Office will announce a list of proposed products subject to tariffs within 15 days, and accept a 30-day public comment period; the U.S. Department of the Treasury will introduce a plan to restrict Chinese companies from investing in mergers and acquisitions of U.S. companies within 60 days. On March 24th, the U.S. Trade Representative Office sued China to the World Trade Organization (WTO) on issues concerning intellectual property rights and technology transfer.

2. Problem Formulation

The trade relations between US and China has always been an important bilateral trade relations, which ranks first in the global market in trading volume between the top 2 economic powerful countries in the world. In 2016, the trade volume between US and China reached 578.5 billion dollars. Currently, China is the largest trading partner of the United States, and also the biggest import and the third biggest export source of the US, while the United States is the largest source export market of China and its sixth largest source of import. Although this bilateral trade relations became closer from the beginning in 1979, their trade friction is also rising and becomes more intensified especially after Trump comes to power.

“American First” is the basic pillar for Trump’s campaign and administration agenda. While the tax reform is moving forward in 2017, the so-called trade war has been provoked unilaterally by Trump in 2018. Ever before the inauguration of Trump’s presidency, Trump tended to name China as “currency manipulator” and threaten to impost 45% tariff on imports from China. Since early 2017, this bilateral trade relations between US and China has been going through fractions and cooperation, and eventually turned out to be the possible trade war for now.

The basic and direct reason or motivation for trade restrictions on China alleged by Trump is to cut the large amount of trade deficit. Trump administration intend to cut the large trade deficit with China in two ways: further open China market and decrease China exports to US market through so-called trade war. China indeed account for a large portion of US’s trade deficits. However, the rationale behind is not just an absolute matter of trade policy, and the cause of US’s large deficits is also more than a China problem. The large deficits lies in different divisions of both China and US in global value chain, Triffin dilemma of dollar currency, low savings and high consumption of US and vast investments by US large multinational companies in China.

Thus, deep rationale is behind the recent antagonistic Sino-US trade relations under The Trump Administration. US's inclination towards anti-globalization is growing and populism marked by anti-globalization become more popular in US, making a sound voice to justify and push forward strong position concerning trade relations with China. To a great extent, this is the reaction of US working class who suffer most from globalization. For Trump, who is a strong supporter of anti-globalization and elected by 2016, it matters much because the supporting rate of people will be important to the result of mid-term election and his next president election.

From the dimension of international system, the trend of being anti-globalization is also because of the relevant decline of its power. With power decline, US, especially for Trump administration is trying to retreat globally and get rid of its international responsibility which China is going to take over. For this consideration, the recent antagonistic Sino-US trade relations is actually the gaming under the power transition in international economic order.

Thus, the recent fractions in Sino-US trade relations cannot be attributed to a simple matter of trade issue, and the rationale behind for US is also not just to cut trade deficit through impose tough trade restriction on China. Thus, the objective of this thesis is to find the real and deep rationale behind, and discuss the possible implications for further Sino-US relations and the international society.

To reach the objective, the problem of which this thesis is trying to explore answers would be formulated as: why the Sino-US trade relations are being more antagonistic under the Trump administration

Correspondingly, sub-questions will also be formulated to further break down this problem. Sub-question 1: Should the Sino-US trade relations be truly blamed for the large trade deficit of US? Sub-question 2: Is US's relative gains declining compared to China? Sub-question 3: Will China challenge the hegemonic position of US in the international system.? Sub-question 4: What drives US to anti-globalization?Sub-question 5: What are US's reactions in the possible power transition process?

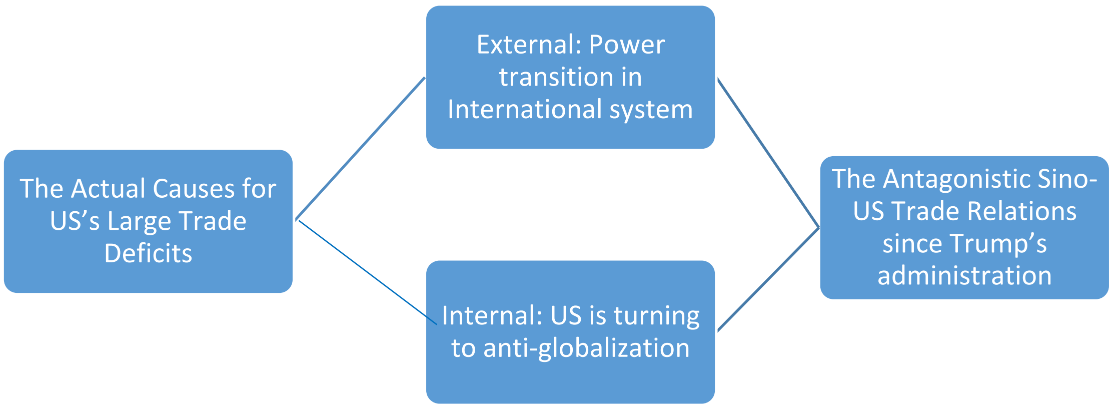
3. Methodology

This section presents the methodology used to conduct the study. It specifies the research design, the resource where data was collected and the methods of how data was analyzed.

3.1 Research Design

This thesis will be designed on hypotheses presented in the problem formulation section. Also, qualitative and quantitative methods will be combined in this thesis. Though this thesis will mainly be conducted in descriptive analysis, the empirical analysis and explanatory method will also be used to prove hypotheses.

According to hypotheses needed to be proven which is presented in the problem formulation section, the research structure will be designed in the following way:



3.2 Data Collection and Analysis

The data used in this thesis was mainly secondary data. Secondary data included published material, newspapers, information and database from U.S. Bureau of Economic Analysis, Ministry of Commerce of the People's Republic of China ,Federal

Reserve Bank, OECD, World Bank, UNTACD. Also, surveys and academic index(typically the KOL globalization index) from scholars were also used.

Also, the Pearson Product Moment Correlation(PPMC) will be used to achieve correlation parameter in order to prove the correlations between globalization and the economic situation of working class in US, which is designed to be the proof of US's inclination towards anti-globalization. Person correlation is a measurement to detect the linear relationship between two set of data or to be more specific two variables X and Y. By definition in math, it is the covariance of the two variables divided by the product of their standard deviations. Statistically, it has a cap of +1 and a floor of -1, where +1 means these two variables are positively correlated in a linear relationship, 0 shows no linear correlation between, and −1 means they are negatively related. In practice, it is very rarely to see three of them, where mostly certain parameter fall between them. Normally, the P-value between ±0.8~1.0 is distinctively strong correlation, similarly ±0.6~0.8 is strong correlation, ±0.4~0.6 is medium correlation, ±0.2~0.4 is weak correlation, and ±0.0~0.2 is distinctively weak or no correlation.

4. Theories

Hegemonic stability theory is one of the mainstream theories of international relations. Its interpretation of the post-World War II international economic order once had a great influence on the international relations academic community and the formulation of US foreign policy. Concerning the period after the hegemony, arguments on relative gains and absolute gains both from neoliberalism and neorealism explain the actions may probably be taken by a declining hegemonic power. Thus, in this thesis, hegemonic stability theory and the following arguments on relative gains and absolute gains will be used to demonstrate why US is going more anti-globalized and impose strict trading restrictions on China..

4.1 The Hegemonic Stability Theory

The theory "Theory of Hegemonic Stability (Hegemonic Stability Theory)" was first used by American scholar Keohane(Keohane 1980). In 1973, Kindleberger, professor of economics at the Massachusetts Institute of Technology, published the book “World Economic Slumps from 1929 to 1939”(Kindleberger 1973) laying the foundation for the theory. Since then, Krasner and Gilpin have been supplemented and improved this theory. In common, it has the following arguments:

1).The stability of international system is maintained by the hegemony. The stability and prosperity of a specific liberalism international economic order requires hegemony to maintain (Kindleberger 1973). The so-called "hegemony", although hegemonic stability theorists have different interpretations, generally refers to a large country that has the advantage over other countries in the military, political, economic, and natural resources, and can play a leading role in the international economic order, such as the United Kingdom in the 18th and 19th centuries and the United States in the 20th century. The hegemonic theorists believe that there is a positive correlation between hegemony and the economic order. When hegemonic power still remains advantages, the economic order within the international system remains stable. On the contrary, when the hegemonic power declines, the international economic order will become disordered and eventually collapse with the decline of the hegemonic power. So hegemonic power plays a crucial role in international economic order(Stephen Krasner 1978). Advocates of hegemonic stability theory illustrate this argument by the synchronization between the relatively stable international economic order and British and American hegemonic power period.

Kindleberger thinks, "The world economy from 1850 to 1914 was relatively stable, which should attribute to the United Kingdom providing free trade, gold standard system and navy forces.” (Kindleberger 1981) The Great Depression in 1929 was precisely due to the lack of hegemonic power. At that time, UK are not power enough while the United States are not willing enough to undertake the responsibility to maintain the international economic order, resulting in disorders(Gilpin R, Gilpin J M 1987). Kindleberger emphasizes the important role of hegemonic power in world economic development, pointing out that for a stable world economy, there must be a stabilizer, it must be a hegemonic country."(Krasner, S. D 1976)

2).The hegemony maintains the stability of international economic order through providing international public goods. There are “collective goods” or “public goods” in an open market economy. When individuals, families or companies consume such goods, they will not reduce the number of products other potential consumers who have access to such goods, such as roads, sidewalks, or lighthouses. However, because individuals can consume them for free, public goods are often out of supply or not maintained well unless the certain economic interests motivate the subject of certain economic behavior to be willing to bear a greater share of cost of this goods, or there is a kind of agency (such as government) that forces consumers to pay for them. For a free and open international economy, there are also public goods(Ferroni, Mody 2002): rules formulated by international economic organizations, such as free and open trade systems based on the principle of most-favoured-nation treatment; stable international currencies, which can help everyone making profits from business activities; even international security can be seen as a collective goods, because as long as a stable and peaceful international order is established, any country (regardless of whether or not to contribute money for this goods) can enjoy a peaceful international environment and then be able to focus on their domestic development.

Scholars believe that only hegemonic power has both the motivation and the ability to provide “public goods” such as international security, free trade, foreign investment, and a well-run international currency system, and are willing to maintain this system(Robert Gilpin 1981). That is to say, the hegemonic power has the will and responsibility to ensure the provision of stable currency and various public goods under the open trade system. What’s more, the hegemonic power’s economy can play a crucial role in the world economy. It uses its own prestige and reputation to establish and focus on the principles, regulations, and decision-making procedures of all economic activities within the scope of certain problems, to define what is legal and what is illegal and address the “free-rider” phenomenon(Kindleberg 1981). The gold standard system of the 19th century and the Bretton Woods monetary system after the Second World War are typical examples that how a hegemonic power maintains the international economic system. The existence of a hegemonic power can continuously provide new public goods, allow capital to flow steadily, and force those “free riders” to actually pay for them, which can effectively maintain the stability of the international economic order. This is what Kindleberger means for the role of the "stabilizer" in the world economy.

3).The hegemonic power will eventually decline.The ultimate development trend of hegemony is that hegemony will decline. Gilpin demonstrated this argument from three aspects. First, from the perspective of market mechanism, hegemony is based on the overwhelming advantages in military, economy, science and technology over other countries. However, the market mechanism makes profound changes in the distribution and pattern of economic forces in international economic order, and the new competitive power must inevitably require redistribution of politics power, "The liberation of market forces has changed the political landscape, undermined hegemony, and created a new political environment that the world must eventually adapt to." From the perspective of benefits, in order to pay for the cost of maintaining hegemony (the cost of providing public goods), the economic surplus of the hegemony is gradually reduced or even exhausted. As a result, the hegemonic power is gradually unable to afford the cost of providing public goods, and then has no choice but to abandon its hegemonic position and give way to other newly emerging and more competitive emerging countries. "Free riding" is Gilpin's third reason to illustrate this argument. Free riders have on the one hand economically added to the cost burden of hegemonic power's public goods, weakened the power of hegemonic power, and on the other hand they have frustrated the hegemons from morality and confidence, and have lost the desire and motivation to provide the international community with an open and stable international economic order(Gilpin R, Gilpin J M 1987).

However, though the power transition are going through, Modelski believes that “Free riding” is not the essential cause of power transition (Modelski 1978). It is reasonable for the existence of free riding and could be adjusted in international economic system, and there is a long process for emerging power to achieve technology advance while the hegemony power could further accumulates its technology advantages.

4).The power transition will take place after hegemonic power declining. Organski inherited Hans Morgenthau's realistic paradigm and pointed out that in anarchic international society, pursuing the power defined as national interest is the basic goal of a country(A． F． K． Organski 1958). A country can only use its own strength to influence the behavior of other countries so that can give oneself power. The distribution of power between countries determines the stability of the international system, and the key to maintaining the stability of the system lies in whether the balance between power and satisfaction can be achieved. The theory of power transition is based on two explanatory variables, namely relative power and degree of satisfaction with the international order, which can classify countries in the international community into four types: Strong and Satisfied, Strong and Unsatisfied, Weak and Satisfied, weak and unsatisfied. The interactions among them, especially the power distributions between the former two, are the main determinants of war and peace. In the view of Organski, the transition of power is inevitable. Avoiding and resolving the impact and challenge of power transition are the core strategic goals of a hegemonic power.

4.2 Relative Gains under Certain Situations.

The neoliberalists emphasize the importance of absolute gains in international cooperation, because the absolute gains generated from international institutions will offer a way out for prisoner dilemma and eventually facilitate cooperation. However, the neoliberalists just lose their eyes on relative gains. Precisely because of states; considerations on relative gains, the cooperation usually doesn't work, according to arguments of the neorealists (Kenneth N.Waltz 1979).

The neorealists point out that the international system still remains anarchy, meaning that there will not be any supreme power to regulate behaviors in this system and no one can be free from war. Thus, the ultimate and basic goal for states in this system are to increase their power for the purpose of survival. To be more specific, to increase powers relative to others and ensure a certain amount of relative gains. Under cooperation, this going concern will not be eliminated just for absolute gains. If participators state A cooperates with accumulated more gains relative to state A, eventually stronger power would grow relative to this state A(Joseph M.Grieco 1988）. That means, state A will be exposure to potential risks of aggression.

Then, liberalists started to consider the impacts of relative gains equally but with some limitations. They note that just under certain conditions, weights of absolute gains will be greater than weights of relative gains for a state(Luis Simón 2017). Charles Lipson argues that states prefer absolute gains to relative gains in economic affairs compared to security affairs. Robert Powell connects external factors with weights of absolute gains(Rober Powell 1991). In a system characterized by intense competition among states and great uncertainty about other's strategies and actions, states' weights on relative gains will increase.

Though there are always controversies around, the neoliberalism and neorealism converges gradually on the issue of relative gains. That is, states will focus more on relative gains if there was an international system that security issue concerns most. On the contrary, in an international system led by the hegemony, security and international institutions are provided and sustained by the hegemony(Robert Keohane 1986). Thus, states are more likely to focus on absolute gains and cooperation could be easily reached. It is called neo-neo synthesis(Ole Wæver 1996).

Further studies on the weights of relative gains and absolute gains show that more specifically a state's choice will differ depends on another one it compared to, even relative gains weigh more to this state. For instance, when state A is pursuing relative gains, it is likely that state A is more eager to win relative gains to some states while this kind of motivation is weaker to the other states(Duncan Snidal 1991). David Rousseau holds a similar view, he thinks that if state A saw state B as a threat to it no matter economically or militarily, state A would more focus on the relative gains to state B. To state A, it means its power will always stronger than state B and state A will not be threatened if the relative gains to state B is always positive.

To US, absolutely the chasing power China would be the "state B" based on arguments above. Thus, US will be extremely focus on the relative gains to China and may take actions to reverse the possible declining on relative gains to China.

4.3 Theoretical Application

Hegemonic stability theory and argument on relative gains and absolute gains will be applied to demonstrate the deep reasons for the antagonistic Sino-US trade relations under the Trump Administration in the following logic:

1) The US was once the hegemony that established and maintained the international economic order

2) The US's inclination to anti-globalization is enhancing due to the negative effects of globalization, making it possible to make trade protectionism policies.

3) The relative gains for US against China is declining, while China is trying to take over US's leadership in the international system.
4) Containing China in trade market is chosen by US who is a declining hegemony, in order to avoid power transition in the current international system.

5. Empirical Analysis

The recent Sino-US trade relations is going through a hard time. The Trump administration alleged that the unfair Sino-US trade relations has caused large trade deficits and US people suffered a lot from it, so it should be "rebalanced". Then, the so-called "trade war" has been triggered by the US recently. However, should the Sino-US trade relations be truly blamed for the large trade deficit of US? Any deep rationales behind US's recent actions on "trade war" against China?

To answer questions above and problem formulated in the beginning, I would conduct analysis in the following way: First, I would analyze the actual causes for US's large trade deficits to prove that the Sino-US trade relations cannot be blamed for US's large trade deficits. Second, I would prove US's declining relative gains in the current international system compared to China, including declining relative gains in economic power, military power and soft power. Third, I would analyze the anti-globalization inclination of US to prove that US is approaching to trade protectionism, which is the reason why Trump could come to power and choose the way of so-called "trade war" to contain China's attempt to approach power transition.

5.1.The Actual Causes for US's Large Trade Deficits

Considering the total trade volume, China generally gains trade surplus, but it is mainly reflected in the segmentation of goods trade, while trade deficits are recorded in service trade. According to data released by US[1], in 2017, the US trade deficit with China was 337.2 billion US dollars, accounting for 59.3% of the US deficit (U.S. Census Bureau & U.S. Bureau of Economic Analysis 2018, report on U.S. international trade in goods and services). Among them, the U.S. goods trade deficit with China was 375.7 billion US dollars, accounting for 46.3% of the US trade deficit, more than the aggregated

[1] Data retrieved from the U.S. Census Bureau and U.S. Bureau of Economic Analysis https://www.census.gov/foreign-trade/balance/c5700.html

deficits of the following nine economies (42.3%); the U.S. service trade surplus was 38.5 billion US dollars, increased by 1.2% compared to last year, accounting for 15.9% of US's service trade surplus with first ranking.

However, there are significant differences between China's trade data and the US's data. According to Chinese data, China's trade surplus with the US in 2017 was 275.8 billion US dollars, accounting for 65.3% of China's merchandise trade surplus, which is less nearly 100 billion to US's data. The main reasons for statistical differences are as follows: First, the United States has generally included part of Hong Kong's re-export trade in trade volume from China, but this part of trade volume is actually mixed with re-exports of other economies. Second, the United States calculates the export volume by offshore price, the import volume by onshore price, doubling the volume of loading, transportation, insurance and other expenses which are recorded in trade deficit between China and the United States. Third, there is a difference in the scope of statistics. The United States uses a common trading system which is bounded by national boundaries, including storages in bonded warehouses and free trade areas. China enforces a special trading system. It is bounded by China's customs territory and records only for goods entering the Chinese customs, goods in bonded warehouses are not recorded. According to China and the United States Statistics Working Group, from 2008 to 2014, the U.S. official statistics on China's trade deficit with China are overestimated by about 20% each year (Ministry of Commerce of the People's Republic of China 2017, Research Report on China-US Economic and Trade Relations). [1]

Structurally, China mainly exports electric and electronic audio and video equipment (including household appliances, electronics), textiles and clothing, furniture and lamps, toys, shoes and hats to the United States, and China imports mainly intermediate products and components for manufacture from the United States, including soybeans,

[1] Ministry of Commerce of the People's Republic of China, Research Report on China-US Economic and Trade Relations,pp.65,

http://images.mofcom.gov.cn/www/201708/20170822160324457.pdf aircraft, automobiles, integrated circuits and plastic products. Large trade surpluses are mainly gained in segmented industries producing electromechanical products, audio and video equipment (including household appliances, mobile phones, etc.), miscellaneous products (furniture, toys, sporting goods, etc.), textile shoes and hats. The industries generated large deficits are mainly industries producing soybean and other agricultural products, automobile and aircraft transportation equipment, and mineral products, etc.

The direct reason for the trade war between China and the United States is the large trade surplus gained by China between the United States. The Trump administration tried to further open China's market and reduce China's exports through trade war. However, the deep-seated reasons for the trade imbalance between China and the United States are much more than a simple issue of trade policy. The trade war could not solve intrinsic problems which cause the trade imbalance: differences on Sino-U.S. economic structure and the positions of both countries' divisions in global value chain, the U.S. dollar as the international reserve currency, the privilege of the U.S. dollar, the low saving rate and high consumption of US economy, heavy restrictions on the export of high technological goods to China, and the vast investment in China from U.S. multinational companies.

5.1.1. Composition of the China's Trade Surplus

Foreign-funded enterprises contribute 57% of the trade surplus of China's goods trade volume (Ministry of Commerce of the People's Republic of China, Research Report on China-US Economic and Trade Relations 2017).US-funded enterprises are important beneficiaries. With the further development of international labor division, multinational corporations in the United States have developed a global supply chain, increased direct investment in China, and used Chinese cheap labor and other resources to reduce production costs. The amount of exports produced by multinational corporations has become an important contributor for China's surplus with the United States, and multinational corporations have gained a lot of profits among. The

"Research Report on Sino-U.S. Economic and Trade Relations" issued by the Chinese Ministry of Commerce shows that, according to China's statistics, in 2017, 57% of China's goods trade surplus came from foreign-funded enterprises, and 59% came from processing trade.

5.1.2. The Division of Global Value Chains

Although goods are exported from China, the value is added in US. While trade surplus is gained by China, real benefits are gained by US. Traditional accounting, meaning the volume of exports minus the volume of imports, does not reflect the trade imbalance and value allocation under global value chains. According to the comparative advantage theory proposed by David Ricardo, global trade is based on the comparative advantages, and countries only engage in the trade of final goods(David Ricardo 1951). However, with the advancement of information communication technology and transportation, the production process of products has been divided into different stages. These stages are generally cross-bordered outsourced to the countries with most efficiency in each certain stage, and eventually construct the global value chains(UNCTAD 2013).

China has taken the comparative advantage of its labor force in the global division of labor. It has imported large quantities of raw materials from Latin America, the Middle East, and Australia, together with a great number of intermediate products from the United States, Japan, South Korea, and Germany, then assembled and processed domestically, in the last exported those final products to Europe and the United States. In this global value chain, the real value added by China is only lied in the processing and assembly stage, but the traditional export accounting method is based on the ex-factory price, which significantly overestimate the trade surplus gained by China. According to the calculation method of the Global Value Chain (GVC), the Chinese Academy of Sciences found that the trade surplus between China and the United States is only 48-56%[1] of that of the traditional method (Chinese Academy of Sciences 2017,

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[1] Chinese Academy of Sciences, report on Sino-US trade value added computation in 2010-2016, pp.4,2017.

report on Sino-US trade value added computation in 2010-2016).

Since the mid-1980s, the industrial structures in Japan and South Korea and other developed countries have been upgraded, transferring their labor-intensive industries which have lost comparative advantages to China. This transfer has formed the model that China import raw materials and intermediate products such as spare parts from these countries, and go through the stages of processing and assembly, then export final goods to the United States and European countries. As a result, the surplus these countries gained from United States has also been transferred to China. Thus, the trade surplus between these countries with US declined, while the surplus between China with United States climbed year after year. Indeed, the trade surplus between China and the United States included the surplus of other countries with the United States. The proportion of US trade deficit against China accounted for the total US deficit rose from 9.4% in 1990 to 46.3% in 2017. In the same period, the United States' total trade deficit with Japan, South Korea, Hong Kong, and China Taiwan fell from 53.3% to 11%.

From the aspect of the global value chain, China has achieved development on employment rate, taxation, and economic growth, though environmental destruction and waste of resources are borne by China. China is mainly in the processing and assembly stages in the global value chain which is low-value-added, the front-end R&D and design, production of core components, and back-end sales services are conducted by US. As a result, a large amount of profits goes back to branches in China set up by US multinational companies, leading to a pattern that surplus lies in China while real profits goes back to US. What's more, the total factory value was calculated in the export accounting and China's trade surplus was dramatically overestimated.

Taking Apple as an example, Apple's value gained in the entire process far exceeds the value gained by any other players in the manufacturing industry, and China has the lowest added value. In 2010, Xing Yuqing and Neal Deetert, researchers of the Asian Development Bank Institute (ADBI) at that time, estimated that from a value-added perspective, Japan and Germany are the core suppliers of iPhone components(Xing Yuqing, Neal Deetert 2010). Thus, the US trade deficit resulted from iPhone can also be broken down by countries. By doing so, the U.S. trade deficit with China in iPhone is dropped to 73million dollars, while 1.9billion dollars trade deficit are shown with Japan and Germany.

In July 2007, three scholars from the University of California, Greg Linden, Kenneth L. Kraemer, and Jason Dedrick published an article decomposing the equation of 30GB iPod3's price. The retail price is 299 US dollars, consist of 144.4 US dollars factory cost, 80 dollars profit and about 75 US dollars cost which are allocated to retail and distribution. From the added value gained by the stakeholders involved, the largest part of the cost is the hard disk drive, which is provided by Toshiba Corporation of Japan. The estimated ex-factory price is US$73.39, accounting for 51% of the cost of all iPod. The value gained Japan is approximately US$20. The second costly part is the monitor, with the estimated ex-factory price of US$20.39, accounting for 14% of the cost. The provider is Japan's Toshiba Matsushita Corporation, the value Japan gained is US$5.85; the third costly component is the microchip, manufactured by Broadcom and PortalPlayer from US, US gained a value of 6.6 US dollars; China conduct the assembly of the iPod, almost at the lowest end of the production process, the assembly cost is only 3.7 US dollars, less than the iPod 3% of the total cost, only gain US$0.11 value from it(Greg Linden, Kenneth L. Kraemer, Jason Dedrick 2007).

In summary, the U.S. trade deficit with China largely comes from electronic products, but in fact it also includes trade deficit from Japan, South Korea, and Germany. As China mainly exports final products, the surplus is usually reflected in China, though China just gain the lowest added value. On the contrary, U.S. multinational companies benefit from it most.

5.1.3. Triffin's Difficulties

As the US dollar is still the international reserve currency, the United States must maintain its trade deficit to outsource US dollars abroad for its international solvency and recollect the US dollar through the capital market

In the 1960s, the American economist Robert Triffin pointed out that if there is no other currencies to replace the US dollar as a new international reserve currency, the dollar-centric parity system will surely collapse, because in this system, the U.S. dollar bears contradictory dual functions, namely (1) providing solvency for world economic growth and development of international trade; (2) maintaining the value of the U.S. dollar and maintaining the exchange rate between U.S. dollar and gold（Robert Triffin 1960）. In order to meet other economies' needs for US dollar reserves, the United States can only provide US dollars in the form of external liabilities, that is, the continuous deficits of international balance of payments, while the long-term international balance of payments deficit will lead to an excess of international solvency and the devaluation of the US dollar, then it becomes hard to maintain the official price of gold. Contradictorily, to ensure the stability of the exchange rate of the U.S. dollar, the U.S. must maintain a balance of international payments, which in turn will lead to a shortage of U.S. dollars and a lack of international channels of settlements. Bordo (1993) rightly notes that under flexible exchange rates, the Triffin dilemma disappears, as any adjustment could occur through capital flows

After the Second World War, the US dollar-centered Bretton Woods system was established, in which the U.S. dollar was linked to gold and other currencies were linked to the U.S. dollar. At that time, the current account of United States has a self-correcting mechanism, that is, the deficit causes the contraction of the US dollar issuance, lowers the total domestic demand and price, and increases exports to reduce imports.

After the collapse of the Bretton Woods system in 1971, the U.S. dollar was decoupled from gold, forming a model in which other countries provide resources and commodities to the United States, the U.S. provides dollars in return, and other countries buy U.S. debt and U.S. stocks so that U.S. dollars could flow back to the U.S. The U.S. don't need to worry that this pattern will lead to the outflow of gold, which is bound to be an expanding trade deficit actually. Eichengreen thinks that the Nixon Administration merely sought policy latitude instead of realizing commitments (Eichengreen 1996).Only the deficit can continue to outsource the dollar abroad and provide international solvency. “Power in the system accrues to the government which controls the dominant currency as the rest of the global economy organizes itself with that economy at the core. This allows the core economy to ‘resolve’ the [Triffin] dilemma by pushing the costs of adjustment onto others” as Winecoff argues in 2014.(Winecoff 2014, 90).

This situation enabled US to use three sets of policy instruments as noted by Kirshner, which are manipulating currencies, creating and enforcing monetary dependence, and purposefully disrupting the international financial system (Kirshner 1995, 20).At the same time, if U.S. want to maintain the functions of US dollar as an international reserve currency, it is required to keep a strong dollar exchange rate which is not conducive to exports. When the trade deficit reaches a certain level, the U.S. government again changes the situation through the appreciation of other countries' currencies and the devaluation of the U.S. dollar. For instance, in 1980s US forced the appreciation of the yen and continued to accuse Chinese currency of being undervalued after China's entrance to the WTO. The choice of "strong dollar" or "weak dollar" is always a matter of dilemma.

5.1.4. The Special Position of The U.S. Dollar

The special position of the U.S. dollar has led the U.S. heavily rely on money-printing and debt for trading goods and resources from other countries. This will inevitably lead to huge trade deficits and huge capital surplus

In this regard, Barry Eichengreen made an incisive illustration on " Exorbitant Privilege: The rise and fall of the dollar and the future of currency"(Eichengreen 2009).One of the privilege of the dollar’s international currency position is that the actual resources need to be payed to the United States to for dollars. The cost of “production” of a hundred-dollar in the United States is only a few cents, but other countries must provide real goods and services worth US$100 for it. The difference in the cost of printing U.S. dollars and cost of exchanging U.S. dollars from other countries is the so-called “coin tax”, which stems from the medieval lords or feudal lords who minted coins and took away some of the precious metals from the minted coins. Outside the United States, about $500 billion of U.S. currency is in circulation. That is to say, other countries must provide the United States with real goods and services worth US$500 billion.

More importantly, not only the U.S. currency is hold by foreign companies and banks, so are U.S. bills and bonds. On the one hand, these bills and bonds can provide convenience for international transactions, while on the other hand they can earn interest income(Carla Norrlof 2014). Foreign central banks hold nearly $5 trillion bonds issued by U.S. Treasury or US quasi-government institutions such as Fannie Mae and Freddie Mac. For foreign companies or banks, the amount they hold is increasing year by year.

Because foreign banks and companies attach great importance to the convenience of US dollar securities, they are willing to pay more for this. That is, they do not require certain high interest rates for the securities they hold. This means a lot: the interest rate that the United States pays for its foreign debt is two to three percentage points lower than its foreign investment return rate. As a result, theoretically, the US deficit can be sustained for a long time (Helleiner 2008). It makes it possible that maintaining more imports than exports, more consumption than production, while not increasing the debt to other countries. Or, it can also use this spread to invest in foreign companies, and the reason is precisely lying on the dollar's international currency position.

For other countries, this is a long-lasting unfair relationship. They believe that in this asymmetrical financial system, they are maintaining the living standard of the United States, and they are feeding multinational corporations of the United States. During the series of presidential receptions in the 1960s, Charles de Gaulle made this issue a global concern. And Valéry Giscard d’Estaing, deputy finance minister of his administration, described the financial system as “super privilege” of the United States.

Nowadays, after financial crisis outbroke in 2008 which is starting from the United States and spreading to other countries—the voice that criticized the United States for “super privilege” has once again begun to ring around the world. Before the crisis broke out, the current account deficit in the United States had already accounted for nearly 6% of its gross domestic product (GDP). Whether it is reasonable to let United States maintain such a high deficit has become a controversial concern. (Mccauley, Mcguire 2009).The emerging markets complained that due to the economic expansion and the increase in the dollar reserves held by their central banks, they had to finance the US foreign deficits in low interest rate, regardless of their willingness or not. Based on low-cost foreign financing, the United States has been able to maintain low interest rates, American families can live in a deficit, and families in developing countries eventually financed rich American families(Milesiferretti 2009). Under the current system, in the face of the ever-expanding international transaction volume, other countries have to provide the United States with a large amount of low-cost financing to obtain the US dollar they need, which eventually led to the outbreak of the crisis.

What's more, in this crisis, the United States' international financial position has further strengthened. In 2007, the US dollar continued to weaken in the foreign exchange market, devaluing about 8% compared to last year. However, because the U.S. debt is settled in the local currency, it has no effect on the value of U.S. dollar. On the contrary, US's investments abroad, including bond investment or factory investment, has appreciated due to the weaker US dollar. If those investments were converted to U.S. dollars, they will offset more interests and dividends.

The depreciation of the U.S. dollar increased the U.S. foreign position by nearly $450 billion.[1] This largely offsets the increase in the amount of U.S. foreign debt, considering a 660 billion current account deficit of US. In addition, this can basically ensure that the US's debts is stable against other countries, though Americans consume more than 6% of their output. What's more, in the time of financial crisis in 2008, the federal government was able to borrow a huge amount of money at a relatively lower interest rate, because in the view of international investors, during the period of great

[1] Eichengreen, B., & Flandreau, M. (2008). The rise and fall of the dollar (or when did the dollar replace sterling as the leading reserve currency?). Cepr Discussion Papers, 13(3), 377-411.

recession, the US dollar is the safe-haven currency. Later in the early 2010, when the financial bubble burst, investors flocked to this markets with the best liquidity and bought US Treasury bonds, which further reduced the cost of US government borrowing. Apart from that, the American household mortgage interest rate also decreases. This is what the "super privilege" means.

5.1.5. The Low Savings and High Consumption Pattern of the US Economy

The low savings and high consumption pattern of the United States will inevitably lead to huge trade deficits. The reasons behind this are the high welfare system, low interest rate environment, and dollar hegemony.

According to the national economic identities, $Y = C + I + G + NX$, $Y\text{-}C = S = I + G + NX$, means that savings S decline (or consumption is too high), the net export NX will continue to be negative. The lower the savings rate, the higher the consumption rate and the lower investment. Domestic investment and production are not able to meet the needs of domestic consumption, thus the imports will continue to increase and come out with lasting trade deficit.

To some extent, the low savings is resulted from the high welfare system and the long-term low interest rate environment that stimulates residents' excessive consumption. Increasing fiscal deficits continue to increase aggregate demand, and expansion of imports has led to trade deficits(Feldstein 2008). In 2016, the U.S. government's expenditure on medical care, education, and residents' allowance accounted respectively for 21.7%, 13.6%, and 21.3% of total expenditure, combined to share more than half of government expenditure[1]. Comparatively, in 2016, China's expenditure on health care, education, and social allowance accounted for 7.2%, 14.9%, and 12.2% of total fiscal expenditure[2], which less than US in a large extent..

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[1] U.S. Bureau of Economic Analysis, Government total expenditures [W068RCQ027SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/W068RCQ027SBEA

[2] Ministry of Finance of the PRC, Government total expenditures 2016 http://gks.mof.gov.cn/zhengfuxinxi/tongjishuju/201701/t20170123_2526014.html

5.1.6. Differences in Labor Costs and Economic Structure

Differences in labor costs and economic structure between China and the US will inevitably lead to a trade surplus. In 2017, the per capita GDP of China was 8,800[1], while the same indicator for United States was 59,000 U.S. dollars[2]. This huge difference in labor costs means that China has a comparative advantage in the low-end manufacturing, and the United States has a comparative advantage in high-end manufacturing and advanced service industries. However, while China manufactures low-end products to the United States, the United States has blocked exports of high-tech products to China(Lv J, Shi Qi, 2009).

The structure of China's three major industries in 2017 was 7.9%, 40.5% and 51.6% respectively. This industry structure results in the high production and low consumption of China's economy, the proportion of sectors producing consumer goods is especially below the global average, which has transferred excessive production to US. US's agriculture accounts for 1% of the total GDP, manufacturing accounts for 11.7% of total GDP, and service industry accounts for about 80% of total GDP. Due to the industrial structure of the United States, US's domestic production cannot meet domestic demand and requires large amounts of imports(Liu Shuru, Xu Lili 2014).

On the other hand, the U.S. restricts the export of high-tech to China, which accounts for nearly 40 percent of the deficit against China.

Basically, it is a trade surplus in the high-tech sector with economies other than China. However, due to the long-term restrictions on the export of high-tech products to China, there is a large trade deficit in high-tech sector with China.

According to U.S. statistics, in 2017, the trade deficit of U.S. high technology against

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[1] World Bank, Gross Domestic Product Per Capita for China [PCAGDPCNA646NWDB], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PCAGDPCNA646NWDB

[2] U.S. Bureau of Economic Analysis, Gross domestic product per capita [A939RC0A052NBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A939RC0A052NBEA

China was 135.4 billion U.S. dollars, accounting for 36% of the commodity deficit, and accounted for 122.7% of U.S. high-tech trade deficit. In 2005, this figure was 109%. If the United States cancels high-tech export restrictions and achieves a trade balance in this area, it can reduce the deficit by nearly 40%.

In terms of sub-sectors, in all US high-tech trade with China, with the exception of electronics, aerospace, and flexible manufacturing which generates few surpluses, other high-tech fields such as biotechnology, life sciences, optoelectronics, information, and communications are basically in trade deficits because of extremely few exports. Among them, because manufacture of major information and communication products are made in China(such as Apple),information and communication are the source of the major deficits against China, and imports from are relatively large.

5.2 Potential Power Transition: US's Declining Relative Gains and Power

"The rise of the rest"(Zakaria 2011) from Fareed Zakaria could be the most appropriate description for what is going on in the current global power structure. He believes that following the rise of the United States, our world is currently going through the third structural shift in power in the past 500 years, namely, the rise of the rest, or the rise of the non-Western world. Some emerging countries such as China, India, Brazil, South Africa and Turkey have made their decades-long rapid economic development and also witnessed the stagnated development of the West.

The influence of the non-Western world is not only rapidly increasing economically and politically. At the same time, non-western values and development models have also continuously challenged the western world. Among "the rise of the rest", China is the one with the most potentials to take over the power of US hegemony. Brzezinski notes that the rise of China not only marks the end of the dominance of the West, but also marks the eastward shift of the global power center(Brzezinski 2013). Gideon Rachman also points out that China is different from Soviet Union and Japan, as China has advantages both on population and economy, making China much more threatening to US(Gideon Rachman 2011).

The rise of China and the declining of US power are two sides of a coin(Paul Kenedy 2010). As the hegemonic power, US established the order of the international system and maintained this order by providing international public goods. The later emerging power, typically China, largely participated and benefited from this order, while US was paying a lot to maintain the settled international order. Changes are taking place in power distribution of the international system. Power transition are going through between the relative declining US and the rising of China, though it is a long-term process and possibly will not going smoothly as the hegemonic power will absolutely try to maintain its hegemonic position.

Thus, it costs more currently for US to maintain the global security and the stability of international system, which makes the security concern going up compared to other concerns in the international system. What's more, with the recent backing to Realpolitik from major powers of international system, the uncertainty has increased. According to theory of hegemonic stability and arguments on relative gains, under such circumstances, relative gains weigh more than absolute gains in the interactions among states. Especially, according to Duncan Snidal and David Rousseau, China as an emerging threat to US, not only in economy but also in military, will push US to pursue relative gains against it prior to the other states.

Then, precisely because of the declining relative gains against China and the relative declining of US power, US has reasons to prevent China from further narrowing down the power spread between US and China.

5.2.1 Relative Decline in Economic Power

1) Large fiscal deficits and debts

After the financial crisis in 2008, the U.S. economy was once in trouble, and the signs of recovery have not been shown obviously yet. In 2008, the U.S. fiscal deficit was 458.4 billion U.S. dollars, accounting for 3.73% of the GDP of the year, compared with only 1.2% in the previous fiscal year. Correspondingly, US Treasury bond in 2008 were US$10.69 trillion, accounting for 67.37% of the GDP for the year(CBO 2013). Even after an eight-year economic recovery, the U.S. fiscal deficit in 2016 was still as high as US$584.6 billion, which did not recover to the level before the financial crisis ; U.S. Treasury bonds reached US$19.76 trillion in 2016[1], which was increased by nearly 85% compared with the time before the crisis. Its proportion for GDP even exceeded 100% to 104.96%.[2]

Huge fiscal deficits and national debt are an important manifestation of the declining US economy. The sharp rise in treasury bonds and fiscal deficits after the crisis was caused by the U.S. government's increase in government spending through large-scale borrowing and overdrafting budgets in order to stimulate the sluggish economy. However, this approach did not achieve the desired results. Instead, it increased the people's expectations of inflation and created liquidity traps (Brycz 2012), which affected the American public's confidence in the U.S. economic trends and capital markets, and eventually caused the U.S. economic recovery to a stagnation.

From a global perspective, the U.S. government's large amount of borrowing will affect the U.S. dollar's international currency position and the U.S.'s own international hegemony (Christopher Layne 2012). The United States itself is already the largest borrower to most developing countries, as the United States borrows increases dramatically after the financial crisis, it will further weaken the U.S. bargaining power in the treasury bond market. Considering the strong borrowing demand and unclear recovery of US, the desire to buy US bonds are reduced, which in turn increases the real interest rate of US Treasuries and hinders the recovery of the US economy. More importantly, the United States as a debtor will rely on debt repayment to creditor

[1] U.S. Department of the Treasury. Fiscal Service, Federal Debt: Total Public Debt [GFDEBTN], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GFDEBTN, March 8, 2018.

[2] Federal Reserve Bank of St. Louis and U.S. Office of Management and Budget, Federal Debt: Total Public Debt as Percent of Gross Domestic Product [GFDEGDQ188S], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GFDEGDQ188S, March 8, 2018.

countries, while the largest creditor to the United States is China. China will use this economic dependency to seek political interests. In 2015, the IMF announced that the renminbi will be added to a special basket of currencies for the SDRs. In addition to the fact that the renminbi itself is becoming more and more internationalized, it also contributes a lot that hold large amounts of bonds of the United States.

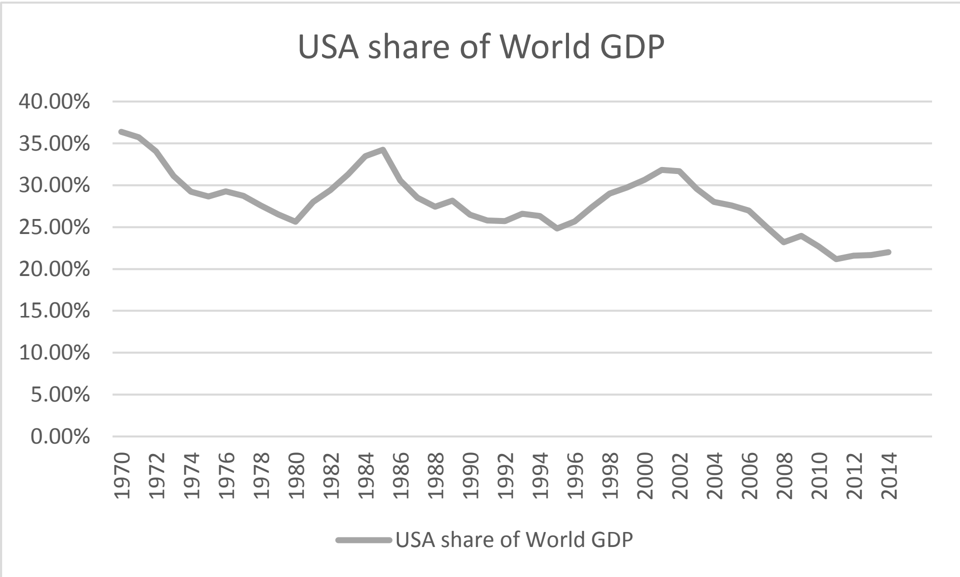
In addition, the expansion of the fiscal deficit will also limit US's spending and efforts in the international community, especially on military operations, while limited government spending will be used on domestic affairs. Former U.S. Deputy Secretary of State Richard Roger Altman believes that fiscal austerity will reduce U.S. spending on defense and military affairs, which will lead to a contraction on US's military operations worldwide, especially in Afghanistan and Iraq. The way was to withdraw troops directly from these battleground, and in fact the United States has already completed its withdrawal from Afghanistan during the Obama administration. Furthermore, spending on foreign aid, intelligence will also be reduced, leading to a decline in the international position and voice of the United States, and its overall strategy will gradually recede globally(Altman R C, Haass R N 2010).

2) Decline in share of international economy

From perspective of US's changes in figures with the world economy, the U.S.'s own international economic position shows a downward trend. Since World War II, the United States' GDP has accounted for roughly 30% of global GDP. As shown in Figure 3.1, although the GDP share of the United States has ushered in a small increase since the end of the Cold War, this proportion has been declining in the 21st century. The United States accounted for 16% of world trade and 30% of world economic output respectively in 1999. By 2014, these two figures have fallen to 11% and 22% respectively(Jonathan Broder 2009).

While the share of U.S. accounted for the international economy is declining, China's share as an important force in emerging market countries continues to rise. This change is even more pronounced in the 21st century, especially after China's entrance to the WTO, China's GDP accounts for global GDP has increased by nearly 10 percentage points.

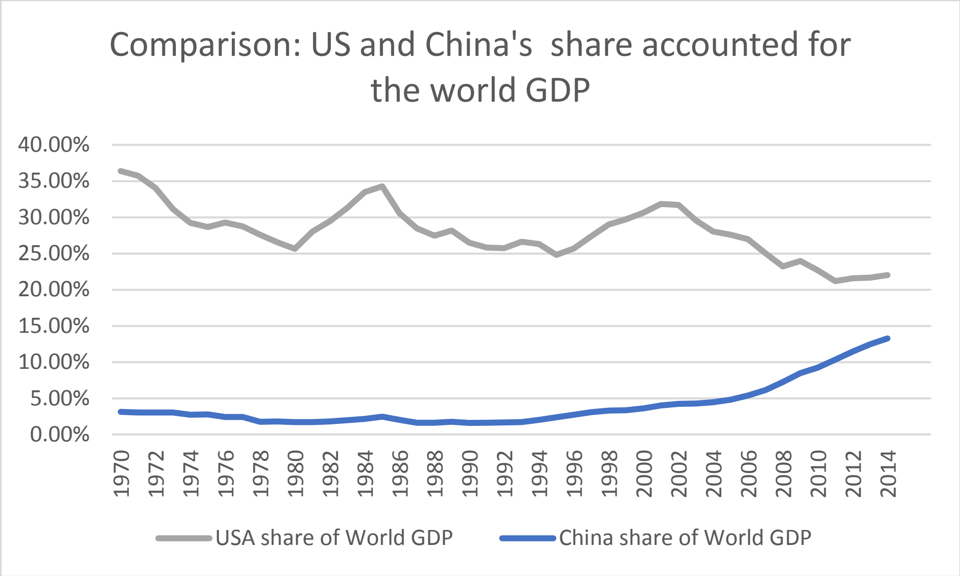
Figure 3.1



Source: Calculated according to data from World Bank

While the share of U.S. accounted for the international economy is declining, China's share as an important force in emerging market countries continues to rise. This change is even more pronounced in the 21st century, especially after China's entrance to the WTO, China's GDP accounts for global GDP has increased by nearly 10 percentage points.

Figure 3.2



Source: Calculated according to data from World Bank

3) Challenges to technological dominance of US

As an important measure of a country's economic power, the United States' advantage and dominance at the technology is the base so that the United States could maintain its dominance in international system and relative power advantages. However, as Fareed Zakaria stated in his book The Post-American World, although the United States has greatly benefited from the rapid development of globalization, at the same time the openness and connectivity of globalization have also made technology and knowledge rapidly and deeply disseminated globally, and this will, to a certain extent, accelerate the decline of the relative power of the United States, because the openness and development of technology has brought new opportunities for all countries to embark on the ladder of development and prosperity(Zakaria 2011).

In 2008, the number of patent applications in the United States is 232,000, which is lower than Japan's ranking in the world and is growing slowly. According to the 2009 IT Technology Innovation Committee survey on more than 40 countries, global technology innovation has been applied to the country for the past decade(AW Mccoy 2015). In the ranking of economic and social changes to bring about by technology innovation, the United States ranks the last one. On the other hand, the number of patent applications in China is about 195,000. Although it is still lower than the United States in terms of absolute numbers, it has increased four times compared to 2000. The amount of computer sales and the number of netizens can, to a certain extent, explain a country's ability in terms of information dissemination and technological breakthroughs. In the United States, these two figures were three times and five times that of China in 2000, and now China is already catching up in all aspects. More importantly, China's huge population base also makes it theoretically easier for China to produce skilled labor and labor with innovative thinking.

5.2.2 Relative Decline in Military Power

At present, the military strength of the United States is still dominate in the world. It is the only country in the world that has a global military launch capability and also has the most powerful nuclear forces. After the end of the Cold War, the U.S. military spending has long been the highest in the world. In 2016, the total global military expenditure was 1.690 trillion U.S. dollars, while U.S. military spending in that year was 611 billion U.S. dollars, accounting for 36% of the world's total expenditure, which is nearly 3 times of China who spent 215 billion U.S. dollars ranking the second. What's more, it is higher than the sum of the military expenditures of the top eight countries except the United States. In addition, the United States also has military bases and alliance systems all over the world, has more than 800 military facilities in 39 countries, and has troops stationed on each continents(US Defense 2013). In addition to the United States, Afghanistan, and Iraq, the United States has 84,000 troops stationed in Europe, 80,000 in the Middle East, 70,000 in the Asia Pacific region, and some troops stationed in Africa and the Americas.[1]

Comparing to the relative weakness of the United States in economy, the relative decline in military power is more lagging. Since the industrial innovation, strong economic power has become the basis for the development of military power, and the economic advantages has been transformed into military advantages through

[1] Data retrieved from SIPRI Yearbook 2017 : armaments, disarmaments and international security[M]. Oxford University Press, 2017.

technologies, capital, and other channels. This transformation process often takes a certain time and lags behind changes in economy. In fact, the U.S. military spending has also shown a downward trend in recent years. The US military budget for 2013 was 631 billion U.S. dollars, which was a decrease of 40 billion U.S. dollars from the same period last year, and it was about 100 billion U.S. dollars less than two years ago. US military spending accounted for 36% of global military spending in 2016, a decrease of 5 percentage points compared to 2011(RAND 2014). Former US Secretary of Defense Panetta has stated publicly during his tenure that the US Department of Defense will continue to implement the policy of reducing military expenditure over the next 10 years. According to this policy, the U.S. will cut military spending by 259 billion U.S. dollars in five years and reduce military spending by about 487 billion U.S. dollars within 10 years.

The rapid development of China's military capabilities has also narrowed the gap between the United States. In 2016, China's military spending was 215 billion U.S. dollars. In 2011, it was only 143 billion U.S. dollars, an increase of nearly 50% to 2011, 2.5 times that of 2002, and 7.5 times that of 1995(SIPRI,2011). It ranks second in the world and increases fast, continuously narrowing the gap with the United States. What has emerged along with the continuous increase in military spending is the acceleration of the modernization of China's weaponry. The US Department of Defense once expressed its concern in its "2012 China Military Report" issued by the US Department of Defense. "In order to comply with China's new role in the international community, China's military modernization has focused on informatization, diversification of combat tasks, and overseas operations, and the ability to deter Taiwan and limit US military intervention in the Asia-Pacific region. In recent years, China has continued to increase its investment in advanced cruise missiles, medium- and short-range conventional ballistic missiles, anti-ship missiles, and cyber warfare capabilities in an attempt to establish 'regional refusals' . China also demonstrated its technological advancement in advanced fighter jets, represented by the first successful launch of the J-20.With the launch of China's first carrier, China also began to have limited longrange launch capacity. In addition, China has also made considerable progress in air defense integration, underwater warfare, nuclear deterrence, and operational command."(US Defense 2011) With China's development in the modernization of weapons and equipment, anti-regional intervention capabilities and overseas combat capabilities has also been promoted, some American scholars have pointed out that China's military power progress showed China is not satisfied with the existing international role, trying to challenge the existing international security system.

5.2.3 Relative Decline in Soft Power

1) Challenge to American model

For a long time, the Americans have used the "City of Hawthorn" voters to conceive themselves, and they are convinced that the American model will bring peace and development to people throughout the world. The American model embraces liberalism and individualism at the economic level, is guided by market economy, and advocates free competition. It also advocates the protection of property and personal rights at the political level with democratic government. Advocating equality and pluralism at the cultural level, to make "American Dream" can be realized by people with different skin color and descent.

After the end of the Cold War, there was a vacuum of power. The iron curtain that was once erected on the Eurasian continent was broken, thus the American model was able to spread throughout the world. The 1989 Washington Consensus, the third wave of democratization that began in the late 1980s, and Bush's "Greater Middle East Plan" during the term of office are all indications of the spread of the American model globally.

The American model has an important influence on the global position of the United States and is a tool and channel for US power radiation. Brzezinski believes that "the ability of the United States to play a constructive role in international affairs depends on how the world views its social system and global status."(Brzezinski 2013)

However, in recent years, the influence of the United States' international image and the American model has continued to deteriorate and decline. According to the 2005 BBC Global Public Opinion Survey, a majority of the people in 83% of its sample are unfriendly to the United States(Dumbrell 2010). In addition, in recent years, the BBC's opinion polls on the United States' influence on the international community show that from 2011 to 2014, people thought that the US's positive influence on the international community fell from 48% to 42%. The negative influence on the international community rose from 31% to 39%.[1] In his book, Stephen Walter pointed out that the image of the United States has not only deteriorated in the Arab region, but also is generally bleak globally. "The power and world status of the United States has been feared, feared and resented by the outside world."(Stephen Walter 2005)

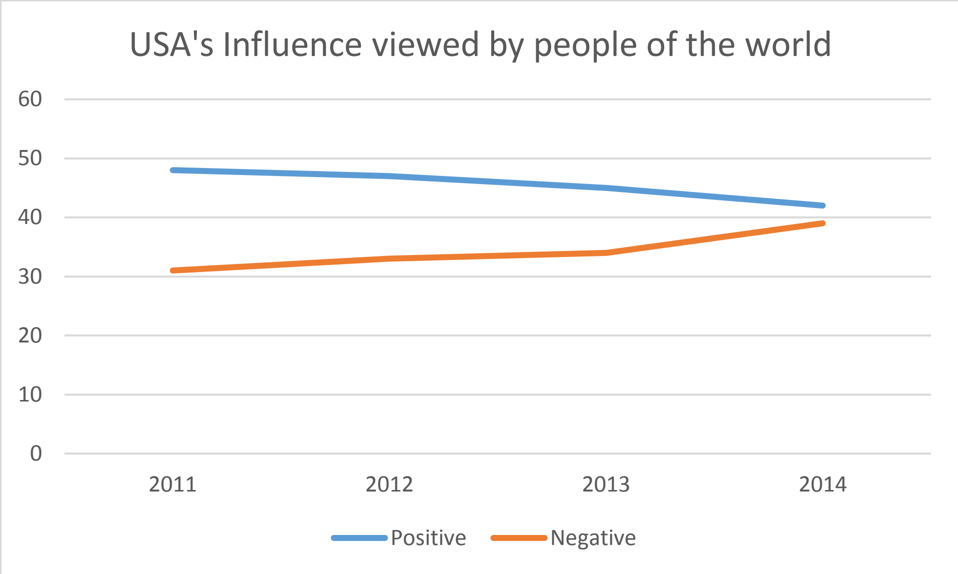
The deterioration of the U.S. international image is due to the U.S. global extension and overuse of power. Back to the Bush administration, the launch of the Afghan war and the Iraq war lacked legitimacy. The so-called "preventive war" itself is more like a pretext for the United States' wanton warfare. (Laura J. Shepherd 2008).It preemptively gives the United States reasons to use force on the basis of counter-terrorism and the purpose of preventing weapons of mass destruction, causing panic and fear to other countries. All countries other than the United States are likely to become the goals of the United States.

In addition, the United States did not achieve good results in post-war reconstruction(Bo Wang 2007). The Taliban armies in Afghanistan are still strong, infrastructure construction has stagnated there, the government's efficiency is still low, and corruption is very serious The US's counter-terrorism war has not brought stability to the Afghan people. Instead, their situation are even worsen. On the other hand, from the "Big Middle East Democracy Plan" of the Bush administration to the Arab Spring, the United States has been trying to implement its American model in Middle East(Hassan 2011). However, the rote American model of democracy failed to bring real benefits to the people of these countries. Instead, it led to the prominent domestic

[1] Data retrieved from BBC Country Rating Poll Global Release 2012-2014 http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/160410bbcwspoll.pdf

contradictions, the secularized regime was deduced, and the alienation of democracy emerged. The American model has been questioned, and the United States' international image has further deteriorated.

Figure 3.3



Source: BBC Country Rating Poll Global Release 2012-2014

2)Decline in institutional power

As the founder of the series of post-war international institutions, the leading position of the United States in major international organizations is the embodiment of its institutional power. However, with the rise of the status of many emerging countries in major international organizations, the dominant position of the United States is challenged.

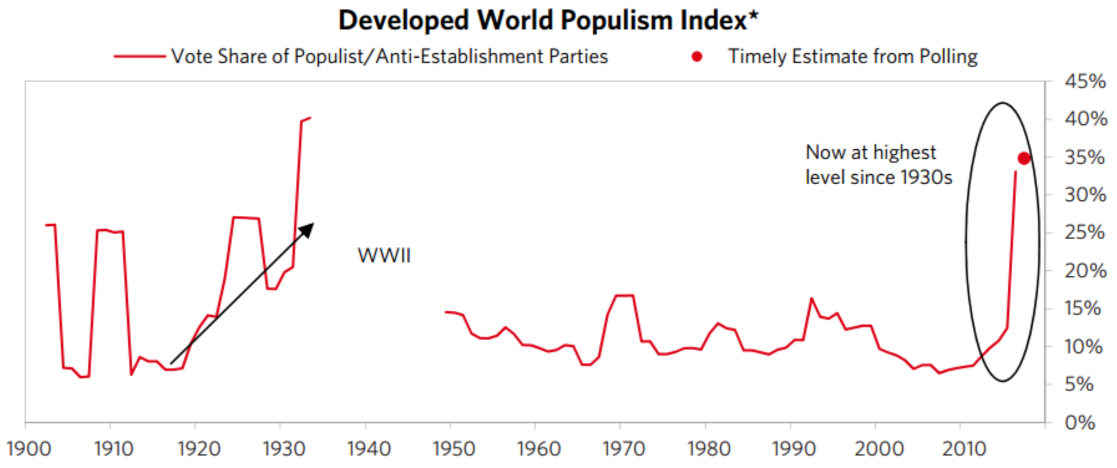
The G8 Group (G8 Group), which plays an important role in the global economic order, expanded to G20 Group (G20) and held its first summit in 2008, formally establishing the structure of the G20 Group. The shows the rising influence of emerging countries in international institutions and the decline of the influence of western groups led by the United States(Zakaria 2011). At the same time, the International Monetary Fund, the cornerstone of the international economic order, also carried out meaningful reforms in 2010. Before this reform, China's share in the organization was 3.385 billion SDRs, which accounted for 2.34% of the total share. China has a total of 34,102 ballots, accounting for 2.28% of the total voting rights. After the reform, China's share rose from 3.65% to 6.19%, surpassing Germany, France, and Britain, and ranking behind the United States and Japan. After the reform, the United States has a 17.67% share and still has the "veto power." In 2016, the renminbi officially joined the basket of SDRs, taking a key step in the internationalization of the renminbi and further enhancing China's voice in the IMF.

In addition, China is also actively seeking to build its own international mechanism. In recent years, the Asian Infrastructure Investment Bank has been gradually established and started projects. Countries along the Belt and Road initiative have actively responded to OBOR initiatives (David Dollar 2015). Especially under the framework of the One Belt One Road initiative, China cooperates with countries along the route, actively eliminates trade barriers at the economic level, constructs regional trade markets outside the WTO framework, and maintains regional energy security and geopolitical stability at the political level, creating regional security community, and promotes the cultural exchanges between China and the countries along the route.

5.3 US's inclination towards anti-globalization: the rise of populism

After the financial crisis, populism prevailed in the United States. According to the report of the world's largest hedge fund Bridge water, the populism index rose rapidly after the financial crisis broke out, and in 2016 reached the peak since the 1930s(Ray Dalio 2017). In the United States, Trump's election marked that populism in US has developed to a certain level. At the same time, populism of this period has not only inherited the traditional characteristics of anti-elites and anti-establishment, but also has the outstanding features of anti-globalization and trade protection.

Figure 3.4



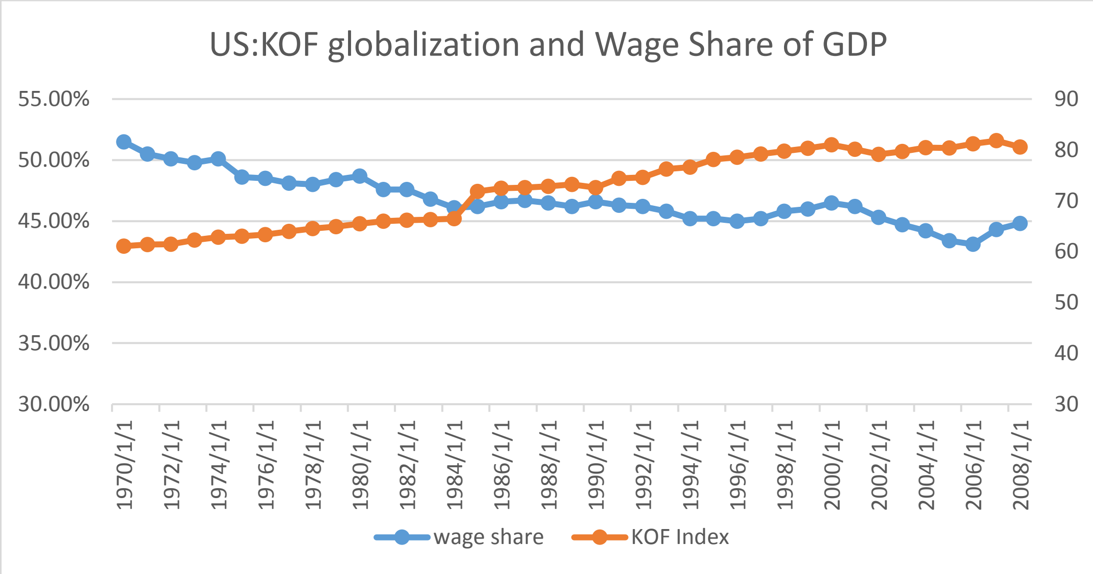
Source： Ray Dalio(2017) "Populism: The Phenomenon" March 22, 2017. Available from Bridgewater website https://www.bridgewater.com/resources/bwam032217.pdf

5.3.1 Widening Income Gap Under Deepening Globalization

Globalization has led to the continuous widening of the income gap in the United States. The working class in the United States, whose wage income is the main source of income, has experienced a long period of stagnation in wages, while the upper-class rich people, mainly rely on capital income, have acquired tons of wealth in globalization(Thomas Piketty 2014). To test the correlations between economic situation and globalization, Pearson Correlation Test will be used in this part and sets of data will be: KOL globalization index, wage share of GDP, corporate profit, Share of Aggregate Income Received by Each Fifth and Top 5 Percent of Households.

1) Correlation between globalization and wage share of GDP

Figure 5.1



Source: Source: U.S. Bureau of Economic Analysis, Shares of gross domestic income: Compensation of employees, paid: Wage and salary accruals [A4102E1A156NBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A4102E1A156NBEA

Table 5.1

表格1.1：Correlations between KOF globalization index and Wage Share of GDP in US

		KOFindex	wageshare
KOFindex	Pearson Correlation	1	-.876**
	Sig. (2-tailed)		.000
	N	39	39
wageshare	Pearson Correlation	-.876**	1
	Sig. (2-tailed)	.000	
	N	39	45

**. Correlation is significant at the 0.01 level (2-tailed).

As the Table 5.1 shows, the Pearson Correlation reaches -0.876, meaning that KOF globalization index have significantly negative correlations with Wage share of GDP. This intuition here is that, the more globalized the US gets, the lower wage share of GDP US has. This share decreased approximate 10%. While considering the large incremental GDP, the actually benefits the US people had lost is tremendous. Not only US people didn't enjoy the benefits of economic growth in GDP, they also lost the percentage income they due to receive.

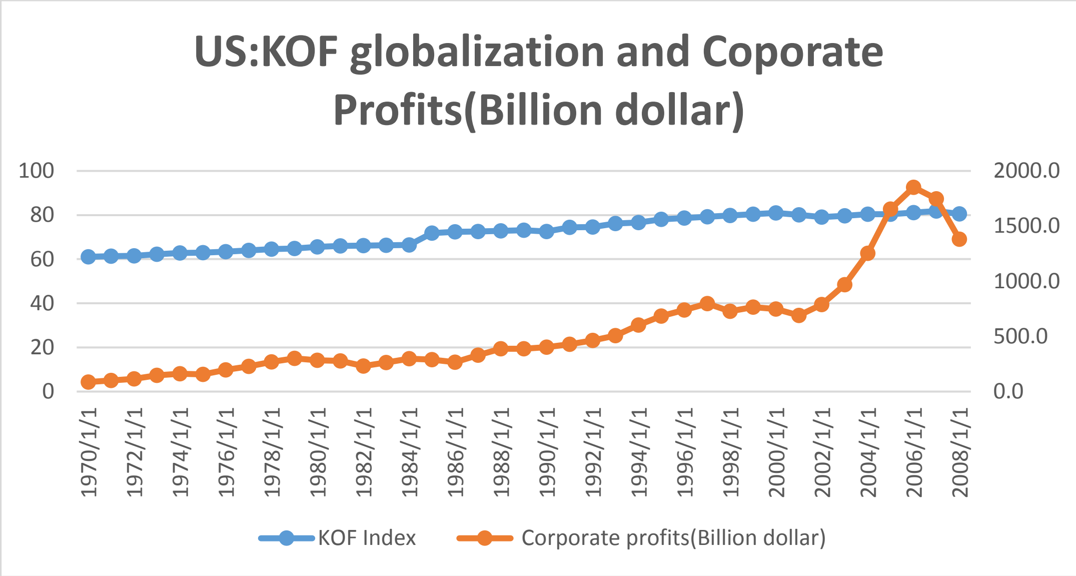
From 1970 to 2008, the proportion of wage income dropped by about 6 percentage. Taking into account the development of US's GDP during the past 30 years, the decline in the relative wage income is quite significant.

The huge trade deficit is a major cause of the decline in the proportion of wages. The trade deficits is resulted from the fact that long-term imports are always greater than exports, which means that the domestic industry, especially the manufacturing industry that accounts for the bulk of imports, cannot meet the needs of the US domestic market only by themselves. In the absence of domestic supply, a large number of transnational corporations goes abroad to seek cheap labor in foreign countries, especially developing countries, to reduce costs and improve profitability. At the same time, under the floating exchange rate system, the United States often operates through the open market to devalue the dollar for the purpose of minimizing the impact of trade deficits. The income of multinational corporations in local branches will eventually need to be exchanged into dollar back to US through exchange of dollars. The dollar in low exchange rate will enable transnational corporations to gain exchange rate profits. In terms of costs and benefits, multinational corporations have reason to keep the industrial relocation going.

With the relocation of industries, a large number of cheap goods have been exported to the US domestic commodity market and together more enhanced price competition with domestic U.S. producers. While tariffs do not necessarily increase the costs of foreign producers because many of them are from the companies registered in the United States. Therefore, if domestic manufacturers in US want to survive the fierce price competition, reducing the amount and frequency of salary increases, or even reducing the salary, will become an inevitable last resort.

2）Correlation between globalization and corporate profits

Figure 5.2



Source: U.S. Bureau of Economic Analysis, National income: Corporate profits before tax (without IVA and CCAdj) [A053RC1Q027SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A053RC1Q027SBEA

Table 5.2 Correlation :KOF Globalization Index and Corporate Profits

		KOFindex	corporateprofit
KOFindex	Pearson Correlation	1	.753**
	Sig. (2-tailed)		.000
	N	39	39
corporateprofit	Pearson Correlation	.753**	1
	Sig. (2-tailed)	.000	
	N	39	39

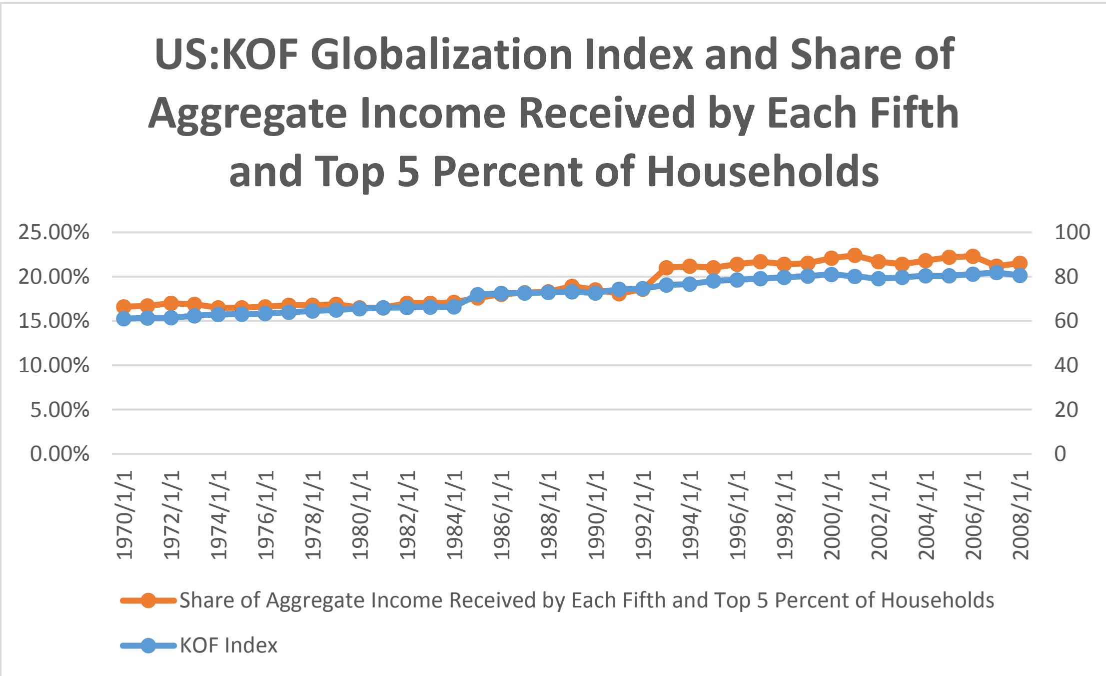
**. Correlation is significant at the 0.01 level (2-tailed).

As Table1.3 shows, corporate profits is positively correlated with globalization with a high Pearson Correlation of 0.75. The more globalized the US gets, the higher corporate profits those corporates has.

Reasons can be varied for this phenomenon. In terms of costs, the U.S. multinational corporations can set up branches abroad in countries with low labor costs and low land prices through the global capital market, then the cost has been greatly reduced. In terms of income, the phenomenon of industrial hollowing in the United States after the industrial outflow has occurred, leading to domestic supply insufficiency. Thus, commodities produced abroad by a large number of multinational corporations can be exported back to US through trade, increasing the total sales. At the same time, trade deficits will make the Federal Reserver more tended to depreciate the dollar through open market operations under floating exchange rates. Local branches of multinational corporations deduct various expenses and record their profits are in local currency and finally record it at the parent company's account at a low dollar exchange rate, realizing the exchange rate gains.

3) Correlation between globalization index and share of aggregate income received by each fifth and top 5 percent of households

Figure 5.3



Source: U.S. Bureau of the Census. https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html

Table 5.3 Correlation between globalization and share of aggregate income received by each fifth and top 5 percent of households

	KOFindex	Top5

KOFindex	Pearson Correlation	1	.951**
	Sig. (2-tailed)		.000
	N	39	39
Top5	Pearson Correlation	.951**	1
	Sig. (2-tailed)	.000	
	N	39	39

**. Correlation is significant at the 0.01 level (2-tailed).

As Table1.4 shows, Share of Aggregate Income Received by Each Fifth and Top 5 Percent of Households is distinctively positively correlated with globalization with a Pearson Correlation of 0.951 almost reach to 1. The more globalized the US gets, this share will be higher.

In addition to the data above, the national income accounted by top 1% of the U.S. population increased from 9% to 20%, from the 1970s to the beginning of the 21st century, and by 15% of US national income before the financial crisis of 2008. These wealth are shifted from the lowest 90% of the population to the top 10% of the population(Thomas Piketty 2014).

4) Economic situation of working class under globalization: the loser

According to Piketty's first law of capitalism, namely $\alpha = r \times \beta$（Thomas Piketty 2014）, where α represents the part of capital income in national income, r is the capital yield, and β is the capital / income ratio. The capital income and wage income together constitute the total national income, and the wage income is 1-alpha. As the ratio of wage income to GDP decreases, capital gains must rise accordingly.

From the analysis of the above three sets of data, it can be seen that the degree of globalization is positively related to corporate profits. As the United States continues to deeply participate in globalization in the past three decades, the profits of US companies have also continuously increased; the share of wages that should be allocated to working-class workers has not risen or even dropped by nearly 6 percentage points. On the other hand, the percentage of people with the highest income of 5% of the national income has continued to increase with the development of globalization.

Combining Piketty's explanation of the composition of gross national income, it can be found that globalization has increased the profits of U.S. companies. However, this part of increased profits has not been distributed to working class through wages. Instead, it has been flown to rich people in US as capital income. The gap between the rich and the poor in the United States has been widening, and the middle class that originally accounted for the bulk of class structure has been moving downwards. The underlying blue-collar workers have been even more squeezed, and the class structure has been gradually shifted to the pyramid structure with a small number of rich people on the top. According to the report of the Pew Research Center, in 1971, the average middle-income group in the United States accounted for 61% of the total population. By 2001, this figure had dropped to 54%, and in 2011 it had fallen to 50%（Pew Research 2015）.[1] On the other hand, extreme income inequality is also one of the causes of the financial crisis. A large amount of wealth is concentrated in the hands of a handful of people. As a result, the income growth of workers has stagnated. With the seduce of financial institutions, many middle-class families and low-income families are living under their means, and borrowing heavily, which has triggered the "subprime lending" of the US financial crisis.

5.3.2 Worsen Situation after Financial Crisis In 2008

The uneven distribution of income has undergone prolonged escalation, together with the fact that the United States has gradually become financially macroeconomic in the era of globalization, the burden of debts at all levels has created a subprime crisis after the collapse of the real estate bubble in 2008. In the 21st century when globalization

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[1] According to the definition of this report, middle income group has been defined as the group ranks between 67%-200% of the average income, the low income group ranks below 67% of average income, and the rich group ranks above 200% of the average income.

was even further developed than the times of Great Depression, the subprime mortgage crisis triggered a more comprehensive and far-reaching global financial crisis in the global market.

The outbreak of the financial crisis has a far-reaching impact, making it difficult to sustain consumption by relying on debt financing. It also fails to cushion the negative effects of globalization brought to the lower-middle class whites in the United States, and ultimately allows this group to rapidly and radically extremize and become populist with anti-globalization characteristics, and Trump's steadfast advocates.

Before 2008, the participants in the anti-globalization movement in the United States were often some anarchists and environmentalists who were concerned about issues such as climate change. They accounted for less in the entire political spectrum. After 2008, the main players in this movement have become populist group, which has greatly strengthened the anti-global voice in American political life (Joseph Lowndes 2017). The populists not only fundamentally believe that the liberal economic order under globalization has worsened their economic conditions and caused them to pay a heavy price, but also believe that the United States has undertaken too many international responsibilities and has not gained the expected benefits, in which the uneven distribution of globalized dividends does not benefit the working class of US, instead it has widened the income gap. Therefore, they tend to have trade protectionism tendencies (JE Oliver ,WM Rahn 2016). They hope that the United States should be withdrawn from the international system, get rid of its international responsibilities and pay attention to domestic affairs, and protect the domestic economic interests of the United States through trade protectionism.

According to the report of the Pew Research Center, in 2016, 57% of Americans believe that the United States should pay attention to its own problems as much as possible, let other countries solve their own problems, and only 37% of Americans insist that the United States should involve in other's affairs. In detail, 41% of Americans believe that the United States has excessively participated in the affairs of other countries. Only 27% of Americans believe that the United States does not participate in the affairs of other countries enough. In addition, 49% of Americans believe that the U.S.'s active participation in global affairs may make the U.S. even worse, compared to 40% two years ago (Pew Research 2016) .Trump's opposition to the TPP, the North American Free Trade Area, or even to the free trade system is deeply supported by the group of populists. The slogans of "America First" and "Make America Great again" attract a large number of followers.

6.Conclusion

To answer the problem formulated: why the Sino-US trade relations are being more antagonistic under The Trump Administration, this thesis focus on the deep rational behind the antagonistic Sino-US trade relations under the Trump Administration, with emphasize on the power transition in the international political order.

The direct reason for the Trump administration to impose trade sanctions on China is to reduce trade deficits. However, the Sino-US trade relations should not be blamed for the large trade deficit of US, and there is a deep rationale behind US's recent actions on trade issue especially on "trade war" against China.

The large trade deficits of US are not a pure result of Sino-US trade relations. The direct reason for Trump to impose trade sanctions on China is to reduce US's large trade deficits. However, the actual causes of large trade deficits of US lies in different economic structures of both countries, the positions of both countries' divisions in global value chain, the special position of the U.S. dollar, the low saving rate and high consumption pattern of US economy, and heavy restrictions on the export of high technological goods to China.

Externally, US's relative gains in the current international system is declining compared to China, including declining relative gains in economic power, military power and soft power. The gap between the rising power China and the hegemonic power US is gradually narrowing down, challenging the leadership of US in the international system. Internally, US is gradually turning to anti-globalization especially since financial crisis in 2008, because of the negative effects of globalization. The anti-globalization inclination of US is the public opinion foundations for the recent "trade war" provoked by the Trump administration. It pushes forward the trade protectionism of the Trump administration, making the president Trump able to realize his protectionism promises made in election campaign.

The main findings on this thesis centers on the deep rationale behind the recent antagonistic Sino-US trade relations under the Trump administration，that the US is threatening by China as a challenger to its hegemonic position because of the declining relative gains in the current international system. What's more, US's inclination to anti-globalization from the public makes the Trump administration able to act in a trade protectionism basis. According to hegemonic stability theory and the following arguments on relative gains, the US chose to exert its power in trade relations with China in order to contain China from challenging the hegemonic position of US.

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