US Trade Policy with China: Proposing A New Framework for US Economic Competitiveness

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ABSTRACT

Due to the Biden Administration's decision to uphold a large majority of the Trump administration's protectionist trade policies, US manufacturing industries are failing to control the market share. This paper explores the proper solutions that need to be taken to restore US competitiveness with China, prioritizing US cooperation with allies and China instead of unwarranted tensions. This paper analyzes the effects of US tariffs on Chinese imported goods on Foreign Direct Investment (FDI) in the US, US Gross Domestic Product (GDP), US manufacturing wages, and overall US manufacturing costs to argue that key US tariffs on Chinese imports should be eliminated. This paper explores the benefits of trade specialization and its effects on the US's Revealed Comparative Advantage (RCA) to argue that the US should champion free trade policies such as revitalizing the Trans-Pacific Partnership (TPP). Finally, this report recommends that the US kickstart wholesale WTO reforms that change the process by which member states identify as "developing" or "developed" nations, and institute stricter litigation statutes against Chinese WTO violations.

Introduction

Historians often debate the underlying reasons that led to a stark decline in the United State's diplomatic relationship with China, but many signs point to economic competition being a large factor. US-China relations at the beginning of the 21st century started off with hope. First, under the Obama Administration, the US created the Trans-Pacific Partnership (TPP) in 2009, a monumental free-trade agreement with twelve countries signing on, including China. But, in 2013, China sparked controversy by creating the Belt and Road Initiative (BRI), a network of trade throughout developing countries that China controlled in efforts to increase their economic influence on other nations [1]. American politics started to become more reactionary to such actions. In 2018, in efforts to decrease the US's trade deficit with China, the Trump Administration decided to impose 25% tariffs on $34 billion of Chinese imported goods to the US. This sparked an immense "trade war" where China increased retaliatory tariffs on US goods and protectionist behavior spiked to an all-time high [2]. In the status quo, by retaining a majority of the Section 232 tariffs on Steel and Aluminum and President Trump's Section 301 tariffs on Chinese goods, the Biden Administration has upheld more than $72 billion of tariffs on Chinese exports [3]. These actions were taken in an effort to continue the "tough on China" stance that has allowed the US to threaten to strong-arm other states [4]. But, US manufacturing industries continue to suffer due to US tariffs on Chinese goods. Additionally, China has engaged in flagrant violations of World Trade Organization (WTO) treaties, the basic framework of compliance created in 2001 that the US hoped would bind China from being coercive towards other countries. Considering that the global fabric of trade is at stake, this report will explore the proper solutions that need to be taken through the question, "What economic strategies should the US adopt for managing its relations with China?". This paper will argue that in order to create the most utilitarian trade stance, the US must champion free trade, an empirically successful strategy, in their policies toward China. Specifically, this report will advocate for the elimination of key US tariffs on Chinese imports instituted by the Trump Administration, the endorsement of trade specialization, rejoining the Trans-Pacific Partnership (TPP) and strengthening WTO enforcement policies. Endorsing free trade restores US legitimacy, drawing allies' markets towards US exports and eliminating the leverage in Chinese economic coercion [5]. Implementing WTO reforms that change the process by which member states identify as "developing" or "developed" nations and institute stricter litigation statutes hold China accountable for WTO violations. Broadly, this framework shores up US economic strength, thereby countering China's economic competitiveness.

Literature Review

In the eyes of literary scholars, the question of preferring protectionism vs. free trade is a central issue of contention when it pertains to trade policy with China. On one hand, neoliberal scholars argue that the tariffs, or protectionism, are unable to reduce the trade deficit. On the other hand, several scholars advocate for the imposition of stricter tariffs than the status quo and the creation of an alliance bloc against China as a political tool to counter Chinese economic coercion [6]. Outside of formal academia, the political climate of the trade war has resurfaced literature shaped around preferences of constant opposition between the US and China, formerly known as Yellow Journalism in the late 1900s. This paper will instead guide all findings around data, empirics, and/or theories of international relations. In an effort to dispute these specific claims, this paper will propose a paradigm of cooperation as a new form of achieving US competitiveness. There is also large skepticism as to the efficacy of the WTO as a policing mechanism against China's treaty violations. Regardless, while there is scholarship on the empirical effects of certain tariffs or Free Trade Agreements (FTAs) on factors such as trade balance in the past, current scholarship excludes large updated policy recommendations that the Biden administration can employ to improve US competitiveness. Because of the recency of the Trump Administration's trade war with China, scholarship is often hyper-focused on one metric of trade with China, but excludes a wholesale consideration of policies that can be well-rounded to solve all of these individual metrics to benefit US competitiveness with China in the future. This paper seeks to fill all of these gaps in academia.

Section 1: The U.S. Should Prioritize Free Trade

The decision to implement tariffs on Chinese goods was justified for political purposes. China committed vast Intellectual Property violations against US businesses, violating international law. To the Trump Administration and US allies, China's violation of Intellectual Property rights served as a grave threat to the global economy, prompting the United States Trade Representative (USTR) to advocate and implement tariffs as a measure of holding Chinese actions accountable [7]. Additionally, the rise of economic and military coercion from China, including gray zone coercion spearheaded by China's People's Liberation Army (PLA), prompted reports to call for increasing tariffs to deter such actions [8]. Therefore, to many, the vision of free trade with China jeopardizes peace and passes up on a crucial opportunity to hold China accountable for their actions. Some scholars argue that in the long-term, tariffs negatively impact China's economy more than the US's and send a diplomatic signal of opposition, making tariffs justified as a trade avenue to improve US manufacturing competitiveness [9]. These scholars agree with the importance of US alliances, and argue that the US should institute sanctions and tariffs to provide a uniform message of opposition with China [6]. But, in reality, China has continued economic coercion after tariffs have been instituted, and US actions are only undermining international organizations such as the WTO, organizations that are more appropriate for holding China accountable [10]. Meanwhile, tariffs on Chinese goods are compromising US economic competitiveness, explaining the need for free trade policies.

The US's goals in trade policy with China should instead be to focus on its own economy, engage in strategic cooperation with China, and revitalize allies' trust. This method enhances US economic competitiveness with China in a rational manner, by strengthening its own economy and alliances. First, having a more prosperous economy and being a stronger competitor against China is inherently beneficial. The multilateral global system that promotes democratic values, sustains security alliances and promotes international trade is inherently strong when the US and its allies have strong economic relations; in fact, US economic prowess is important to improve US legitimacy, the bedrock of deterrence against any emerging threats and the foundation of today's governance system. Chinese aggression is often in reaction to a low perception of US economic prowess, since global leaders consider the US to be a less effective leader [11]. Still, the need for US competitiveness does not warrant overly aggressive actions on the topic of US-China relations. This is because the US is generally losing its economic prowess with China because of these aggressive actions. Put simply, after analyzing the way China thinks about trade with the US through discussions with Chinese Communist party officials, scholars have argued that the US must instead revitalize its own economy to compete with China by focusing on lowering its own debt-to-GDP ratio along with reducing dependence on Chinese goods because of the trade deficit the US holds with China [12]. Ultimately, this means that the United States can be most competitive when it is most cooperative with China and allies. This report will broadly advocate for free trade to accomplish these goals, the first step being a substantial reduction of United States tariffs on Chinese exports to the US.

Part A: Impact of US Tariffs on Chinese Goods

In 2018, the Trump administration increased tariffs on Chinese goods in an effort to decrease the trade deficit between the US and China - in other words, China was buying fewer US exports relative to the goods they sold to the US, which led to a trade deficit where the US was losing billions of dollars due to the trade relationship [13]. The US imposed a larger tax on these Chinese goods, supposedly making them undesirable to the US market. The US thought that this move would give a larger opportunity for their manufacturers to sell more products, thereby helping the economy. But, in reality, this assumption ignored that China is the world's largest manufacturer, so US tariffs on Chinese goods would inevitably hurt the US's economy more than China's.

In 2018 and 2019, when the Trump Administration increased tariffs on Chinese manufacturing goods, the US's Gross Domestic Product (GDP) growth rate declined in the months following the implementation of these tariffs. Gross Domestic Product (GDP) is an economic indicator that describes the total value of a market, including all services and goods. Figure 1 shows how the US GDP Growth Rate decreased from 3.4% in July 2018 to 0.9% in January of 2019, the same period where the US implemented Lists 1, 2 and 3 of Section 301 tariffs that only targeted exports from China [14].

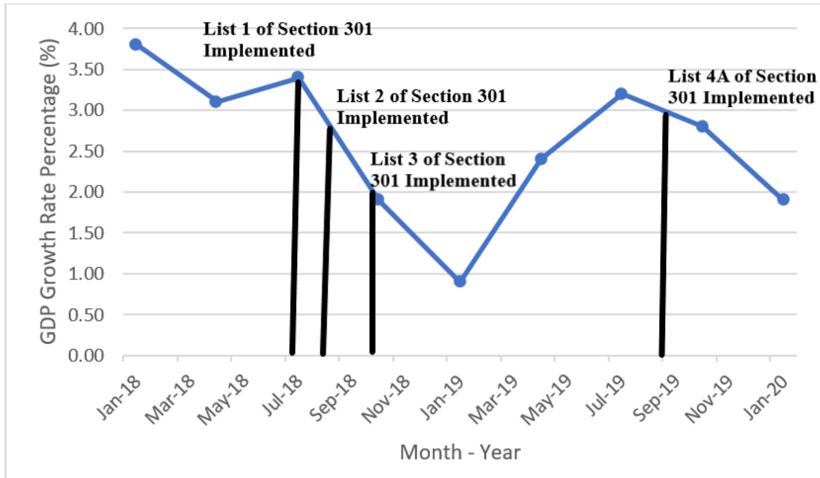

Figure 1. US GDP Growth Rate 2018-2020 | Data sourced from TRADINGECONOMICS.com and US Bureau of Economic Analysis

While there could be other factors that explain this decline in the GDP Growth Rate, tariffs uniquely slow GDP Growth. According to the CATO Institute, US manufacturers bear the brunt of the costs of these recent tariffs, as they severely increase the price of steel, aluminum and Chinese goods. Because US manufacturers have to now spend more money to buy the same foreign materials that make up their products, they actually become less competitive than foreign counterparts [15].

Even before the protectionist behavior by the US in the past decade, tariffs empirically led to job loss and economic stress in the United States. For example, in 2002, after the Bush Administration implemented tariffs on steel imports across the board for three years, 200,000 jobs were lost in the US manufacturing sector, corresponding to a $4 billion loss in wages [16]. Because tariffs empirically hurt the economy of the country that places the tariffs, and because tariffs on Chinese goods have only hurt the US, the first course of policy should be to eliminate US tariffs on Chinese goods to be more competitive with China.

The US should also eliminate current tariffs on Chinese goods because they increase the prices of imports and decrease the value of US exports. Modeling finds that tariffs lead to a 20 percent increase in the prices of unit values made of imported goods from China compared to imports not treated by tariffs [17]. Not only does this hurt manufacturers who rely on these imports, but it hurts American consumers as well. Beyond imports, the same modeling on 2018 tariffs on Chinese goods found that a 1% increase in these tariffs decreased the value of US exports by 3.9%. This proves a trend in decreased manufacturing output in response to US industries having to pay higher costs to buy Chinese products that these industries need to create their own export. Given that a large majority of these tariffs continue to remain today, it is imperative to eliminate these tariffs and help US exports.

Studies argue that eliminating unilateral tariffs actually hurt the US's competitiveness by increasing the trade deficit with China by depreciating the value of the US dollar [18]. But, these studies are conducted through an analysis of State-Owned Enterprise (SOE) subsidy reductions, which are distinct from tariff reductions that definitively hurt US economic growth. Even if tariffs preserve the US dollar by increasing the prices of foreign products while allowing domestic manufacturers to keep the same prices of goods, in the end, consumers have to pay more money because domestic manufacturers rely on foreign cheap goods to make their own products. For example, the US consumer price index, an indicator of the average change in prices for consumers, would likely increase by 0.10% if the US doubled tariffs on Chinese goods [19]. In essence, the value of the US dollar becomes irrelevant in the current economic scenario where consumers have to pay more.

In the face of manufacturing hurting because of tariffs due to the many reasons described above, the investment opportunities of the American people end up lessening as well. Data on the effect of tariffs on stock prices found that US companies lost a minimum of $1.7 trillion in stock prices because of US tariffs on Chinese exports [20]. This means that the average American investor is losing money in the stock market because of US tariffs, a direct impact of protectionism that tangibly affects the lives of the American people in the short-term. All of this makes US economic competitiveness with China difficult in the near future, especially in a time of COVID-19 recovery where consumer well-being is important to economic stability.

The tariffs retained by the Biden Administration will also hurt US Competitiveness with China and slow US economic growth in the future. Growth Modeling from the Tax Foundation finds that the remaining Section 301 tariffs kept by the Biden Administration will lower the US's Long-run GDP by 0.21%, or $51.7 billion [3]. This risks eliminating nearly 160,000 full-time jobs. If the US wants to be competitive with China, it needs to endorse policies that increase GDP and foster job creation. When tariffs increase, US companies have to react by cutting wages and jobs, deal with smaller profit margins and increase prices on products that enter the American market, thereby hurting American consumers [21]. These tariffs only posed a threat to 0.29% of China's GDP, showing that there is no tradeoff, and the US is losing economically because of protectionism [19].

Calls to institute tariffs as a uniform message of opposition against China ignore the realities of trade: with China being the largest manufacturer in the world, the US and its allies will lose out on economic gains if they totally oppose China. Rather, a system of cooperation first is much more beneficial. Regardless, this argument ignores that China is diversifying its trade to developing countries and switching away from reliance on the US. In a scenario of US tariffs on their exports, China has further lowered reliance on US goods, deflecting the negative economic impacts of tariffs. First, China is generally diversifying their financial partners. After their accession into the WTO in 2001, China started to provide larger financial assistance and aid to Latin American countries, eventually becoming Latin America's second most important trading partner. In the Middle East, China has increased trade with Middle Eastern countries to increase their access to natural gas and oil. In 2009, China, for the first time, became Africa's largest trading partner, now becoming the source of around 21% of Africa's imports [22]. This means that as years pass, the impact of US tariffs on the Chinese economy will decrease, as they are actively diversifying their exports to shield their reliance on volatile US trade. Additionally, since the US has increased tariffs in 2016 and after the economic damage from the COVID-19 pandemic, China has diversified to the point of receiving more FDI from other nations, leading to the US percentage of China FDI decreasing. Figure 2 shows that US contribution to overall China FDI has decreased by 0.6% from 2017-2021. Additionally, the decline of China's reliance on US FDI outflow took place around 2018, when the Trump Administration increased tariffs on Chinese goods, showing that tariffs lead to countries diversifying their investment seekings.

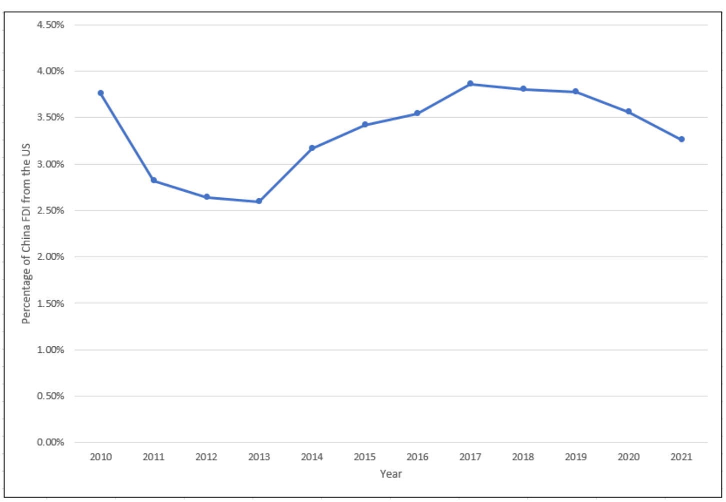

Figure 2. Percentage of China FDI from the US (2010-2021) | Data Sourced From US Bureau of Economic Analysis [23]

China is even expending less capital in US assets in the past 5 years, indicating diversification that has been intensified by tariffs. Figure 3 shows that since 2017, China FDI outflow is making up a smaller percentage of overall US FDI.

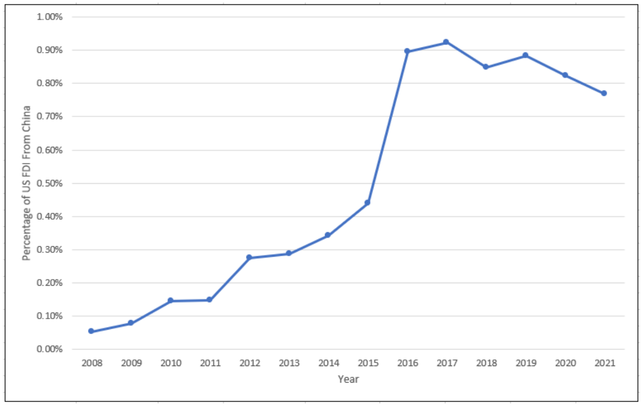

Figure 3. Percentage of US FDI from China (2008-2021) | Data Sourced From US Bureau of Economic Analysis [23]

All of these indicators show that tariffs will have a smaller impact on China's economy, because China is investing less assets in engaging with the US economy. Some critics argue that tariffs do hurt China's economy and that Foreign Direct Investment is not a strong indicator of diversification, because China's FDI outflow is generally decreasing or not increasing as fast as in 2017; but, in reality, Figure 4 shows that China is spending a smaller percentage of their total FDI on US markets since 2017, with a huge decline in FDI outflow taking place in 2020.

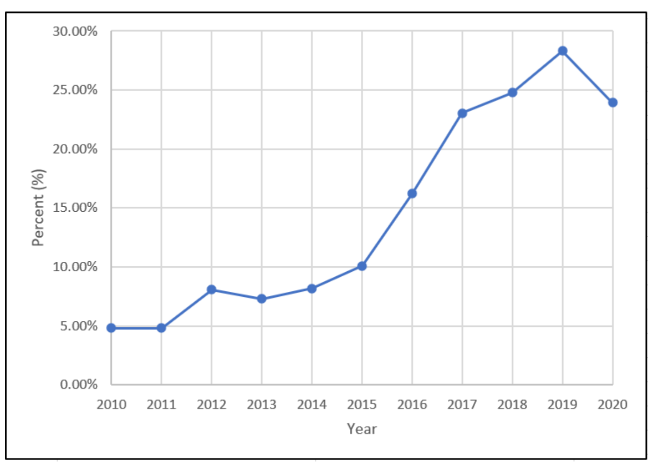

Figure 4. Percentage of Chinese Outflow FDI to the United States | Data sourced from Statista [24]

Secondly, the reason protectionism will not improve US competitiveness is because it leads to retaliatory tariffs from China on top of the already negative effects that it poses to the US economy. For example, after the Trump Administration instituted Section 301 tariffs on Chinese goods, Beijing launched retaliatory tariffs on US goods, leading to $8.3 billion in US GDP loss and threatening 26,000 US jobs [3]. Because China controls a larger percentage of the market share in terms of manufacturing, Beijing will always be able to launch retaliatory tariffs. Additionally, as Chinese FDI to the US decreases, the propensity of retaliatory tariffs will increase further, since China has a lesser reliance on the US market.

Part B: Substantially Reducing Tariffs on Chinese Exports to US

With all of this in consideration, the only option for the United States to usher in economic growth is to substantially reduce tariffs on Chinese goods. Empirically, GDP has increased when a country has instituted lower tariffs, because it allows less penalties for businesses and consumers when spending. Modeling on the period 1980-1995 found that if a country jumped from almost last place to an average level of "economic freedom" by reducing tariffs then that country's GDP would increase by around 1% in the long-term [25]. Tariff reduction models on Latin America, South Korea, and Indonesia in the late 1900s show that economic liberalization promotes GDP growth, in some cases leading to a projected GDP increase of 76% [26]. Along with these empirical situations of tariff reductions always increasing GDP, the current stalemate in trade policy suggests an even stronger need for free trade. Because China is diversifying, instituting retaliatory tariffs, and not changing its economic coercion in response to tariffs, the US needs to change its stance from individual resistance to international cooperation. The US should embrace trade openness to regain its legitimacy as a pro-free trade country and eliminate the disadvantage US manufacturers face right now [15].

Part C: The Benefits of Switching to Trade Specialization

Free trade is a better solution for the future because it employs trade specialization, a form of economic cooperation that allows the US to be competitive while growing the fastest. Trade specialization is when a country specializes in producing specific products and services that are then traded with another country in a free trade agreement that produces another specialty of products. Instead of trying to out-compete competitors in every product and sector, specialization argues that each country benefits more when they each control the market share of different products and services. In the case of US-China relations, trade specialization is critical to advancing US competitiveness by making the US focus on specializing in specific sectors of the economy instead of seeking to control the market share in all sectors and services across the board. This would lead to a cooperative model of trade. In other words, different states would specialize in the production of different sectors of manufacturing or specific products, thereby allowing a harmonious global trade system where every state profits off of their specialization. Allies of the US in FTAs with the US would specialize in specific production to help each other's economies grow, solving any emerging economic coercion threat that China may pose. This solution also includes possible specialization when engaging with Chinese trade. While specializing in trade with China will likely hurt some dominant industries in the short-term, it will maximize welfare in the long-term. If tariffs were reduced, US industries would be incentivized to produce advanced, capital-intensive goods and advanced services while buying simple cheap products from foreign imports [22]. This model would increasingly help the US economy in the longer term since industries would produce more refined and niche products, which, according to empirical globalization in the past 75 years, would improve global value chains that are critical to economic growth [27]. In terms of geopolitical stability, if the US focuses on products where it has a higher Revealed Comparative Average (RCA) than China, then the US and China would not be colliding on manufacturing prowess, as they would be able to control the market share in their specialized products. Scholars in support of protectionism argue that trade specialization would crowd out long-term US manufacturing since China is the largest manufacturing country, leaving the US with almost no specialties for RCA. But, this ignores that the US economy often dominates the majority of global services and that steel and iron manufacturing is improved when tariffs are removed, which allows more manufacturing industries to stay in business.

Some scholars argue that trade specialization caps the potential of US economic growth and that the US should instead increase tariffs on Chinese goods, often to over 50% on certain goods, in order to attract businesses that have shifted to China because of low labor costs. China has more attractive manufacturing prospects because of lax labor regulations, allowing businesses to hire the same labor but at a cheaper cost, thereby incentivizing countries to leave the US and come to China [28]. While it is true that this is causing the US market to lose on key manufacturing, thereby hurting the US economy and market share, it is important to realize that tariffs damage other parts of the trade relationship which are more impactful to our economy. Businesses will always choose to manufacture in China because of low labor costs unless the US increases tariffs to 104%, arguing that China has a higher RCA in most manufacturing categories [29]. Even if businesses would shift away from the Chinese market, these studies simulate theoretical business actions: in reality, these businesses would not move to the US. For example, in response to the 2018 trade war, 41% of American companies thought of shifting manufacturing from China, but a mere 6% moved to the US [30]. Labor costs are still cheaper in other developing countries such as India, so businesses would still not move to the US market even if tariffs incentivize these businesses to leave the Chinese market. It is clear that US market conditions are not appealing for these businesses. On the other hand, tariffs would definitively hurt our economy in the short and long term.

Part D: Trans-Pacific Partnership Membership

Trade specialization relies on effective Free Trade Agreements (FTAs) between countries - this way, each country in the FTA specializes in a subset of products and/or services that are then traded with other countries in the FTA. FTAs have been largely beneficial to the US - in 2014, they led to tariff savings of $13.4 billion, helping US consumers [31]. In an effort to maximize the benefits of trade specialization in US-China trade relations, the US should rejoin and revitalize the Trans-Pacific Partnership (TPP). First created in 2010, the TPP was a regional agreement that called for a new liberalized standard of trade between member countries, where countries would cooperate on making their businesses competitive through set agreements on capacity building. In 2016, the Trump Administration withdrew from the TPP, ending its efficacy to the US [32]. But, rejoining and revitalizing the TPP solves all of the aforementioned issues with protectionism. The TPP leads member countries to increase FDI sent to member states, as proven by East Asian countries such as Singapore increasing their FDI after the TPP was created [33]. Additionally, economic modeling concluded in 2016 that TPP membership would help improve US economic growth. Table 1 shows the economic changes that would take place by 2030 according to the study [34].

Table 1. 2016 Projections - US Economic-Growth From TPP by 2030

Absolute Value in Real Income	$131 billion
Average Real Income Effect	+0.5%
Exports	+9.1%
Inward FDI Stock	+1.9%
Outward FDI Stock	+1.5%

Even beyond US economic growth, the TPP is the best form of alliance cooperation to be competitive with China in a free trade vision where countries do not directly clash over production. In 2021, China submitted a bid to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the formal treaty that now exists among primarily Asia-Pacific countries in place of the TPP [35]. China is actively trying to portray themselves as free trade, undercutting the premise of the US's legitimacy for the past decades. In fact, US protectionism and a lack of participation in major FTAs with Southeast Asian countries is helping bring China closer to countries such as Russia and US allies in the Asia-Pacific and the European Union. Rejoining the TPP allows for frameworks that “counterbalance China’s economic and geopolitical gravity” by amending developments that prevent sufficient alliance innovation [22]. It reaffirms US alliance commitments in the Asia-Pacific region, something that is much needed to establish a new era of trade diplomacy. It also ensures that Asia-Pacific trade agreements are successful; with almost a third of the world’s GDP being represented in the TPP, one of the largest economic powerhouses, the US, being part of the agreement vastly improves the efficacy of this FTA [36].

Section 3: Crucial WTO Reform

In order for the aforementioned free trade mission to be successful, international organizations need to serve a proper deterrent against economic coercion. In the context of US-China relations, the WTO needs to be effective in order to preserve a cooperative framework between the US and China. In the status quo, economic coercion by both the United States and China are going unchecked. First, the dispute settlement mechanisms at the WTO are far too slow and the limited provisions in the WTO against coercive trade practices make the entire organization ineffective against coercion [4]. In terms of reforming these provisions to hold countries’ protectionism accountable, eliminating tariffs, embracing free trade, and rejoining the TPP are critical initial steps that allow for a space of diplomatic negotiations between the US, their allies, and China to fix WTO violation procedures [37]. This paper will specifically advocate for the US and its allies to implement stricter violations against intellectual property rights, copyrights, patents and trademark rights breaches. Given that Intellectual Property (IP) breaches often make up a majority of the specific violations that have been alleged against China, reforming these areas would combat coercion more effectively. Because the US would have decreased diplomatic tensions by alleviating tariffs on Chinese goods, these claims would likely be met with more positive negotiations from China, who has also accused the US of rampant WTO violation due to their high tariffs in the past 5 years. The United States should also work with other WTO countries to negotiate with China to have them accede to the WTO Government Procurement Agreement (GPA). The GPA enforces international rules concerning the process of government procurement, when a state gets the goods and services that they trade through contracts with private businesses. If China accedes to the GPA, transparency regarding China’s public government procurement process will be improved, a key step to prevent local protectionism that goes against WTO ideals of free trade [38]. This move will be a general way to make WTO policies more binding to China’s behavior, which is necessary to prevent economic coercion in the future and keep US alliances safe from Chinese interference. The aforementioned WTO policy improvements also protect US economic interests by ensuring that future presidential administrations in the US cannot switch to rash protectionism.

Finally, in order to ensure that the US maintains its competitive edge with China and will be cooperative with all WTO countries, it is imperative that the US help establish a standard for country identification in the WTO. Currently, countries can identify themselves in the WTO as “developed” or “developing” without any standard controlling this decision; since the accession of China in the WTO in 2001, China has declared themselves as a “developing nation”, allowing the country to “special and differential treatment”, including longer timetable returns to WTO policies, and less mandatory market access adherences [39]. In response to this argument, certain scholars have claimed that China does not gain any benefits from identifying itself as a “developing” country [40]. Others argue that China has vested interests in the success of WTO policies and is only helping the WTO with its current status as a developing nation by falling in-line with the identity it established since 2001, when China joined the WTO [41]. But, empirics prove that China took extra benefits from this label. For example, China has used their “developing nation” status to qualify for lax regulations regarding government subsidization and import taxes. China is therefore able to levy protectionist policies against other countries that will implement improper subsidization to favor more labor intensive industries in China [42]. Not only does this lead to businesses being incentivized offshore to China to gain access to this market, but allows China to have leverage as a developing nation when, in reality, they have the second largest economy in the world. The US should work quickly to change this aspect of the WTO and work with other WTO countries to establish a baseline system for country identification - by basing a country's status based on economic indicators, such as GDP, the WTO can preserve interests that developing nations need while preventing large countries like China from abusing the leeway given to developing nations.

Conclusion

Ultimately, after looking at various economic indicators, it is clear that the US benefits most when switching to a free trade stance in its trade policies with China. GDP decline, job loss and price increases in the US show that the US economy is hurting due to tariffs placed on Chinese goods. Trends in FDI show that China is diversifying its economy toward developing countries such as Africa and European countries to shield the effects of US tariffs. Contrary to political beliefs that China suffers more from US tariffs, data on the effects of China's retaliatory tariffs show that diplomacy and free trade cooperation is the most effective way to combat China's economic coercion. This paper shows how the US's adoption of protectionism has lowered the US's legitimacy in the face of allies, who are now inching closer to free trade with China. If the US wants to be economically competitive with China and preserve its alliances, it should rejoin the TPP and adopt trade specialization. Statistics showed that the US thrives best when it endorses FTAs such as the TPP, and that the US has a higher RCA in key services and goods sectors that make free trade viable for economic growth. Beyond US free trade, the US should reform WTO policies to combat China's economic coercion, including more enforcement against IP violations and a standard system of country identification. This eliminates the preferential treatments that China is receiving despite holding the 2nd largest economy in the world. The findings in this paper serve as a full policy briefing that advocates for a new era of trade relations. In a time when the previous Trump Administration had a staunch view in favor of protectionism yet the Biden Administration has failed to communicate their view on trade with China, the US is at a crossroads. This paper serves as an empirical guide for future research, and rebukes apparent hysteria that is rising in the field of international relations concerning China's relations with the US. The limitations in this paper concern the specificity of reform efforts that need to take place in various aspects such as the WTO: further research will supplement these initial findings in this paper. But, this paper lays out a new way to accomplish US "competitiveness" in the future, where the US focuses on improving its own economy and promotes cooperation with China and its allies instead of constant opposition in the isolationist framework that is taking place right now. On the other hand, the WTO would serve as the enforcement that tariffs were meant to serve, deterring economic coercion.

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