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**THE CURRENT ISSUES
OF THE US AND CHINA ECONOMIC TRADE RELATIONS:
THE CASE OF ZTE CORPORATION**

In the article, it is considered the current trade and economic issues between the United States of America and China. In particular, in the given research, it has been studied the urgent problems of trade and economic relations between the United States and China in the field of the international telecommunications industry were studied, in the case of ZTE Corporation. It has been analyzed the current economic, social and political aspects of trade relations between the United States and China in the context of ZTE case. It has been detected advantages and disadvantages for both countries based on economic methodologies and analytical tools. The primary research methodology of this paper is based on conducting the comparative analysis of existing patterns of macroeconomic development, political differences and social issues within China and the US. The given analysis is based on SWOT, PESTEL, Ishikawa cause and effect modeling, risk identification techniques as well as the five forces model by M. Porter detecting competitive advantages for the countries mentioned above. It is also implemented the systematic vision and expert assessment. Moreover, it has been considered the possible solutions and recommendations on how to improve the current economic relations between given countries in the context of the given ZTE corporation.

Key words: Trade economic relations, trade war, sanctions, USA, China, ZTE corporation, telecommunications.

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**АҚШ пен Қытай арасындағы қазіргі заманғы
сауда-экономикалық қарым-қатынастар мәселелері:
«ZTE» корпорациясының мысалында**

Мақалада Америка Құрама Штаттары мен Қытай арасындағы өзекті сауда-экономикалық мәселелер қаралады. Атап айтқанда, осы зерттеуде ZTE корпорациясы мысалында АҚШ пен Қытай арасындағы халықаралық телекоммуникациялық индустрия саласындағы сауда-экономикалық қарым-қатынастардың өзекті мәселелері зерделенді. ZTE жағдайы контекстінде Америка Құрама Штаттары мен Қытай арасындағы сауда-экономикалық қарым-қатынастарды ағымдағы экономикалық, әлеуметтік және саяси аспектілері талданды. Экономикалық әдіснамалар және талдамалық құралдар негізінде екі ел үшін де артықшылықтар мен кемшіліктер анықталды. Осы мақаланың негізгі зерттеу әдіснамасы Қытайдағы және АҚШ-тағы макроэкономикалық дамудың тиісті модельдеріне, саяси айырмашылықтар мен әлеуметтік мәселелерге салыстырмалы талдау жүргізуге негізделген. Бұл талдау PEST SWOT, Ишиканың себеп-салдарлық байланыстарын

модельдеуге, тәуекелді сәйкестендіру әдістеріне, сондай-ақ жоғарыда аталған елдердің бәсекелестік артықшылықтарын анықтайтын М. Портердің бес күш моделіне негізделген. Бұған қоса, жүйелік талдау және сараптамалық бағалау қолданылды. Бұдан өзге, осы ZTE корпорациясы контекстінде бұл елдердің арасындағы ағымдағы макроэкономикалық қарым-қатынастарды жақсарту жолдары туралы ықтимал шешімдер мен ұсынымдар қарастырылды.

Түйін сөздер: сауда-экономикалық қарым-қатынастар, сауда, соғысы, санкциялар, АҚШ, Қытай, ZTE корпорациясы, телекоммуникациялар.

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Современные вопросы торгово-экономических отношений между США и Китаем: на примере корпорации «ZTE»

В статье рассматриваются актуальные торгово-экономические вопросы между Соединенными Штатами Америки и Китаем. В частности, в данном исследовании изучены актуальные проблемы торгово-экономических отношений между США и Китаем в области международной телекоммуникационной индустрии, на примере корпорации ZTE. Проанализированы текущие экономические, социальные и политические аспекты торговых отношений между Соединенными Штатами и Китаем в контексте ситуации ZTE. Были выявлены преимущества и недостатки для обеих стран на основе экономических методологий и аналитических инструментов. Основная методология исследования данной статьи основана на проведении сравнительного анализа существующих моделей макроэкономического развития, политических различий и социальных вопросов в Китае и США. Данный анализ основан на SWOT, PESTEL, модели причинно-следственных связей Ишикавы, методах идентификации риска, а также модели пяти сил М. Портера, выявляющей конкурентные преимущества для вышеупомянутых стран. Помимо, применены системный анализ и экспертная оценка. Более того, были рассмотрены возможные решения и рекомендации о том, как улучшить текущие макроэкономические отношения между данными странами в контексте данной корпорации ZTE.

Ключевые слова: торгово-экономические отношения, торговая война, санкции, США, Китай, корпорация ZTE, телекоммуникации.

Introduction

Nowadays, one of the most current economic issues is the trade disputes between China and the United States that has a very significant impact on both national economies of these countries as well as international economic situation. These economic and trade relations support more than two and a half million jobs in the United States in various industries, including jobs created by Chinese companies in America. And the Chinese middle class continues to expand rapidly over the next decade (Zeping et al., 2018; Global News, 2018).

According to expert estimates, by 2026 the number of Chinese middle-class consumers will exceed the entire population of the United States. This means that the US companies will face serious challenges to attract a new and profitable customer base, which can further increase employment and economic growth. Economic data show that countries closely cooperating with China are ahead

of countries with less integrated trade connections, and this trend is expected to continue (Petinger, 2017; World Economic Outlook, 2017).

The trade deficit of the US is getting worse and worse, not only because of the imbalance between the US and China but also between the EU and other countries. The US-China trade relations have been developing with frictions and disputes. After China joining the WTO, the frequency of trade frictions has increased. The United States has become the country with the most trade frictions with China. China is involved in more than 20% of dumping allegations by the US (Simandan, 2018; Woon, 2018; Birnbaum, 2018).

Trade imbalance, special protection of textile products, anti-dumping against China and other issues constitute the main content of the US-China trade friction (Chunshan, 2018). The competition of economic interests between China and the United States, the return of domestic trade protectionism in the United States and the strategic containment

of China by the United States are the main reasons for the increasing trade frictions between China and the United States. Trade frictions have had a great negative impact on the development of these economic relations and trade (Ming, 2018).

Trade frictions between China and the United States are mainly microeconomic frictions, but they will be extended to other areas. The RMB exchange rate problem in 2003 has been a macroeconomic friction, and it continues to now. Just as joining WTO has not reduced trade frictions between China and the United States (Amarjeet, 2015). It is hard to guarantee that China will face much fewer restrictions.

In the future, the trade between China and the United States could expand to include labor standards, subsidies, health inspection standards, security issues, trade inequalities, and institutional arrangements related to investment and trade (Long, 2018).

Taking into consideration the current issues of trade and economic relations between the United States of America and China. In particular, in the given research, it has been covered the urgent problems of trade and economic relations between the United States and China in the case of the ZTE Corporation as the hugest representative of IT and telecommunication industry all over the world.

Materials and Methods

In the article, it is considered the current macroeconomic trade issues between the United States of America and China taking into consideration the urgent case of ZTE corporation.

Nowadays the US-China trade disputes are the current issue of great global impact and significance. These trade relations support more than two and a half million jobs in the United States in various industries, including jobs created by Chinese companies in America. Thus, this paper presents the most contemporary analytical review of this current economic situation based on the latest data of 2017-2018.

The primary research methodology of this paper is based on conducting the comparative analysis of existing patterns of macroeconomic development, political differences and social issues within China and the US. The given analysis is based on PEST, SWOT, Ishikawa cause and effect modeling (Ishikawa, 1982), risk identification techniques as well as the 5 forces or 'diamond' model by M. Porter (Porter, 1986) detecting competitive advantages for the countries mentioned above. It is

also implemented the systematic vision, causes and consequences analysis, and expert assessment.

In the given research it has been studied the current issue of the US and China economic trade relations. It has been analyzed the current economic, social and political aspects of trade relations between the United States and China. It has been detected their advantages and disadvantages for both countries based on methodologies and analytical tools described above. It has been considered the possible solutions and recommendations on how to improve the current economic relations between given countries in the context of the given ZTE corporation.

Literature Review

Defining the tension of economic and trade relations between the US and China as a 'trade war' that is «conflict between two or more nations regarding trade tariffs on each other. This type of conflict usually arises because the nations involved are trying to improve imports or exports for its own country. Trade wars have the potential of increasing the costs of certain imports if the nations involved refuse to make a compromise» (Business Dictionary, 2018).

In March 2018 the US government has publicly announced a 25% tariffs on steel and a 10% on aluminum brought into the US (Marris, 2018).

According to the US «American First» strategy, this decision will impact all the majors trading partners, which have been reported to be: China (15.8%), Canada (15%), Mexico (14.5%), Japan (5.3%) and Germany (4.5%) (Michael, 2018; Wu, 2018).

The new tariff act seems to hit in particular China, which is considered the US number one trading partner, trading especially goods like computers, broadcasting equipment, telephones, insulated wires, and jewelry.

In this regards, in this paper it is considered the latest case of this freshly commenced 'Trade War' between US and China, analyzing the case of the Shenzhen based company: ZTE – Zhongxing Telecommunication Equipment Corporation, which in 2017 has registered a revenue gain about 108.82 billion RMB that is around 16.38 billion USD approximately (ZTE Corporation Annual Report, 2017).

The ZTE is the Chinese Giant Corporation founded in 1985, and listed in both Shenzhen and Hong Kong Stock Exchanges, ZTE Corporation – Zhongxing Telecommunication Equipment

Corporation, is a global leader in telecommunications and information technology (ZTE Official Website, 2018).

The Chinese company believes and invests part of its annual revenue in R&D, and during its development process, it has established R&D centers in the US, Canada, Sweden and China, providing jobs to over 30,000 research professionals in the next-generation technologies (Manya, 2018; World Economic Forum, 2018).

Starting from April 2018, the U.S. Commerce Department has imposed the ban following ZTE's violation of an agreement on punishing employees that were reached after it was caught illegally shipping U.S. goods to Iran. American firms are forbidden to sell parts and software to ZTE for the next 7 years (Holland, 2018).

The ZTE has also penetrated the European Market in the 2000s, and it has established an HQ for Western Europe in Paris and an HQ for Eastern Europe in Istanbul. Actually, ZTE has 25 representative offices in UK, Germany, Italy,

Netherlands, Spain, Poland, Bulgaria, Czech Republic, Finland and Sweden (ZTE Official Website, 2018).

The ZTE has started to operate in Italy since 2007, it has offices in Rome, Milan, and Turin. Unfortunately, immediately after the US ban, ZTE has lost an important contract worth of 700 mln USD\$ in Italy to source 'Wind Tre SpA', as one of the 4 sole suppliers of the Internet and fixed and mobile telephone services in Italy (Keneth, 2018). Thus, the key research findings of the research are presented below.

Key research results

SWOT Analysis

The following SWOT analysis has the purpose to better describe the status of the Countries (the USA and China) and the elements that are involved in their environment. The SWOT analysis covers both internal and external business environment (Figure 1).

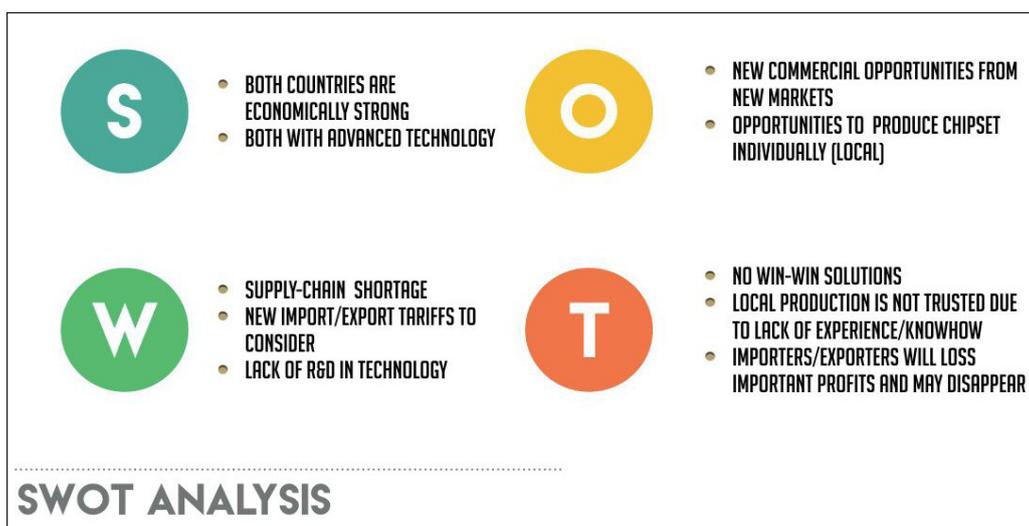


Figure 1 – SWOT Analysis of the USA and China

Note: Source – Compiled on the base of official data of World Bank, available at: www.tradingeconomics.com; World Economic Forum, available at: www.weforum.org; U.S. Government Accountability Office, available at: <https://www.gao.gov/>.

Internal analysis can be analyzed by culture, expertise, resources and unique qualities

Strength. Definitely, both the US and China have a strong GDP growth and are economically strong with advanced technology sectors.

GDP strengths between the USA and China are presented below.

In Figure 2 it is presented the data concerning the GDP level in the USA during 2008-2018 in \$USD Billion.



Figure 2 – The GDP of the USA for 2008-2018, \$USD Billion

Note: Source – Compiled on the base of official data of World Bank, available at: www.tradingeconomics.com; World Economic Forum, available at: www.weforum.org.

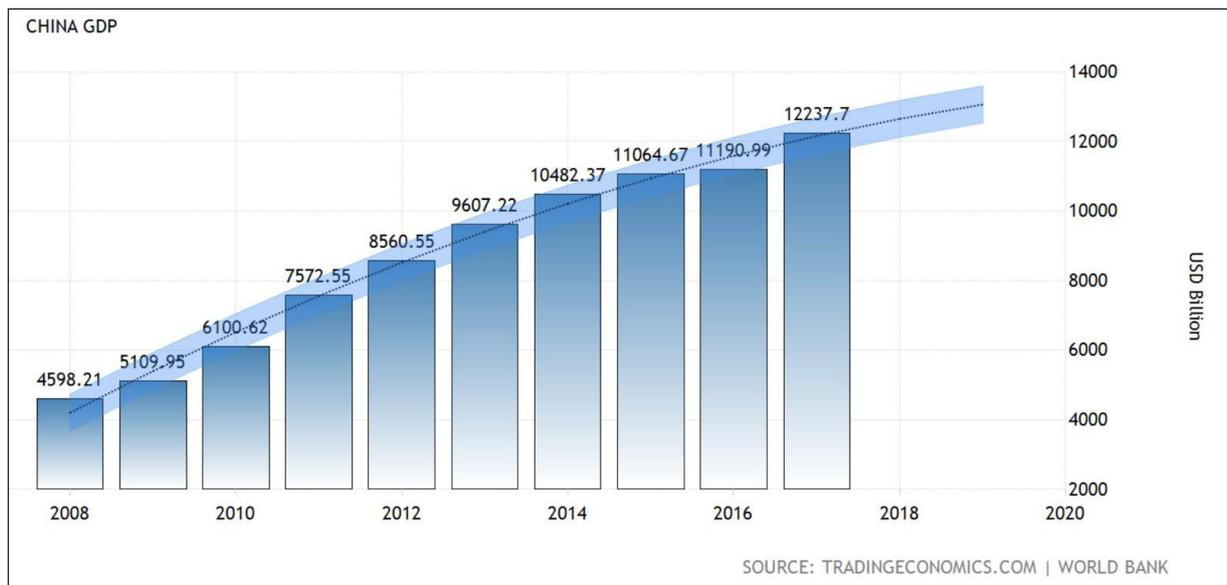


Figure 3 – The GDP of China for 2008-2018, \$USD Billion

Note: Source – Compiled on the base of official data of World Bank, available at: www.tradingeconomics.com

Figure 3 presents the data concerning the GDP level in China during 2008-2018 in \$USD Billion.

Weakness. Supply-chain may suffer from shortage or implications due to new import/export tariffs. For the sourcing Countries, there might be problems in the short term due to the lack of R&D Technology and structures to produce new parts and components.

External analysis can be analyzed by the market ecosystem and third parties exploring opportunities and threats.

Opportunities. New commercial opportunities may come from new Markets. In fact, the new importing tariff act may bring to a positive influence for those Countries that have never had trading with other ones, opening a new path to explore.

Furthermore, it might be an option for a Country to produce its own parts and chipset to source its own companies and those who require abroad.

Threats. Undoubtedly, there will be no win-win solutions for the Countries involved in these rather tough trade economic relations. In fact, different analysts have predicted that eventually local production of chipsets may not be trusted due to the lack of know-how and quality.

Furthermore, importers and exporters may face an enormous crisis which might bring to loss of profits and menace their existences, bringing negative effects also on workers and unemployment.

PESTEL Analysis

China and US both of them are giant countries but to deeply know we have to do the PESTLE analysis to understand of the overall external business environment. In this sense, it should be mentioned as political, economic, social, technological, environmental and legal aspects.

Political factors. China and US are two biggest economies in the world and are fighting for the tag of super power, the political relation of both Countries catch fires when Donald Trump accused China of unfair trade practices and they banned company ZTE, which is Chinese telecommunication giant.

Almost half of the components, which are being used in ZTE smartphones and other products are made by American companies. So, they can't afford to make US government get livid with them. US gave only condition to lift the export ban from ZTE, that they need to replace all the top management, and ZTE did in recent days (Lee, 2018).

In June 2018, US customs gave an official statement that they are imposing traffic on 34 billion worth of imports with extra 25% rate, in coming weeks it will go more. China gave a calm reaction to it, and they said they put a higher tariff on US export to China which is around 3 billion USD (Hardach, 2018). This growing heat is serious issues as it will affect economic growth badly and disrupt the world economy.

Economic factors. Last time when Countries impose high tariffs to secure their economies, the result was terrifying in the 1930s. It costs Countries recession and loss of jobs which result in poverty and unemployment on large scale. Global Economy went down to half what it was before same as some analysts were predicting if this war will go on, the annual growth will be 2.5% which is predicated 3% for coming year under normal circumstances (Charles, 2018).

Social factors. China and USA are top two Economies in the world, their high tariffs and trade

war will not only affect them but it also distorts the global economy, and today in every country multinational companies are working in a lot of different countries including USA and China (The Economist, 2018). They will be in loss. Moreover, it is affecting relation between both countries and other countries have to choose one trade block to be part of it.

Technological factors. Tariff war doesn't affect technological filed, except the fact companies which are tech giants and being a slaughter because of this trade war and high tariffs. ZTE needed to say yes to order of American government to change all the top management to please them. Otherwise, they will suffer from the export ban as it is Chinese telecommunication company.

Environmental factors. The environmental refer to all external factors affects this trade war. The workforce of semiconductors of US will be lost jobs due to import and export company can't do the business. Pricing of the imported product will be increasing.

Legal factors. The trade war between US and China is hot news these days, as president of US Donald Trump accused China of violating World Trade Organization regulations, these unfair trade practices include intellectual property theft (Stecklow et al., 2018). China and the US were threatening each other that they will impose high traffic on imports from each other, What are the reasons and consequences of this scenario? Other nations also indicate that China was not following World trade organization regulations.

Competitive Analysis – Five Forces by M. Porter

The main objective of this analysis is to understand the smartphone industry attractiveness both in China and in the US and determine whether ZTE has advantages over its rivals in the US market and home market as well.

In the framework of industry competition, the level of competition among the major companies that compete directly with ZTE in the mobile sector is relatively high. ZTE is in direct competition with companies such as Apple Inc, Samsung Electronics Co., Ltd., and Xiaomi. One thing that makes the industry so highly competitive is that there is a relatively low switching cost to ditch ZTE's product for Apple products or Samsung product and all these companies spend significant capital on research and development (R&D) and marketing.

Analyzing the ZTE's main competitors, in Table 1 below it is presented the ZTE's main competitors – huge mobile vendors – in the worldwide market share.

Table 1 – ZTE’s main competitors in the worldwide market share

Companies	Market share
Samsung	30.66 %
Apple	18.19 %
Xiaomi	7.02 %
Huawei	7.02%
Oppo	14.2%

Note: Source – Compiled on the base of StatCounter, 2018, available at: <http://gs.statcounter.com/vendor-market-share/mobile/worldwide>; World Economic Forum, available at: www.weforum.org.

As we can see from the Table 1 above, ZTE has relatively a low market share in the mobile phone industry.

The threat of New Entrants. The mobile phone industry is already a well-established market and the threat of new entrants tend to be very low and this is due to a number of factors such as:

- Capital Requirement: a high capital investment is required before you enter the mobile industry;
- Phone Market, huge manufacturing cost and high research and development costs are required;
- The barrier to entering: patent prevent and make it difficult for a new entrant to enter the market;
- Customer loyalty;
- Advanced Technology: It is another factor which prevents a new competitor to enter the market because existing companies have already developed those technologies before effectively competing.

Thus, the threat of new entrants is relatively low in the market in which ZET is operating.

Bargaining Power of Buyers. It is obvious that there are many products on the market which are provided by the different company.

- Switching Cost: It tends to be low and this makes it easy for customers to change the product they normally purchase, buying the competitor’s product.
- Demand for a mobile phone is highly sensitive to the economy, thus buyer can delay purchasing a new model until the price come down to favorable to them.
- Price Sensitivity: a lot of ZTE competitors are all offering similar products, the Industry tends to vary in order to offer price sensitive with a customer seeking out the best value for money.

Thus, the bargaining power of the buyer is high and making it differentiation an ideal way to add value to the market

Bargaining Power of the Supplier. Basically, they are two types of suppliers in the phone industry, which are the hardware manufacturer and the software developer.

– ZTE rely on its suppliers to supply equipment for their mobile phones and their relatively large number of equipment makers which ZTE could easily swift to with a low switching cost.

– ZTE is in the position where the company can bargain and negotiate with the company’s hardware suppliers because there is a high number of hardware suppliers that are readily available to the ZTE company.

Thus, the barging power of the supplier tends to very low in the marketplace for ZTE’s products. And this is due the fact that the suppliers are weakened by the high number of potential suppliers for ZTF and the threat of forwarding integration is relatively low. ZTE is free to choose from among many potential suppliers for component parts for its products.

The threat of Buyers Opting for Substitute Products. Substitute products, within the framework of Porter’s Five Forces Model, are not products that directly compete with a company’s products but possible substitutes for them. In the case of ZTE, an example of a substitute product is a landline telephone that might be a substitute for owning a smartphone. This market force is relatively low for ZTE since most potential substitute products have limited capabilities compared to ZTE’s products, as in the example of a landline telephone compared to a smartphone that has the capability to do much more than just make telephone calls (Bryan, 2018).

Thus, it can be concluded that competitive rivalry is relatively high and ZTE must be aware of the threat that competitors have on their business especially with the growing popularity of iPhone and Samsung products.

Discussion and Recommendations

In the discussion section, it should be mentioned about some risk aspects of the current economic and trade relations between the US and China in the context of ZTE. Among them are:

- ZTE have to pay 1 billion USD (Jacob, 2018) fine for temporarily lifted the ban;
- ZTE’s stock market down more than a half;
- ZTE’s customer decrease the buying goods due to uncontrollable chipset buying from the US;
- ZTE supply chain in danger leads to stopping the new production. This is an example of one biggest Chinese vendors was affected by trade war;

– ZTE’s Android mobile might be gone due to can’t use Google platform software.

It is also world economics going down. From the past, in the year 1929 (Keneth, 2018) the stock market crash cause of trade war then leads to depression of the whole word economics then leads to World War II finally. This is a history teaching us about what happened next if the major big player tries to have a trade war.

Back to the case of the US steel and aluminum tariffs, majors trading industries will be affected due to the tariffs raise up to 25% on steel and 10% aluminum (Charles, 2018). Major industries country will be re-balancing from this trade war by hit back with the goods imported from the US.

What could be the next risks?

- Global pricing of each product, for example, steel components will increase due to the tax tariffs.
- Importer/Exporter company might be a collapse.
- A supply chain with steel and the aluminum-related product will be affected.
- Hit back from other countries, for example, China, EU, and Mexico.
- US import goods will be more expensive than local products somehow the local product might be low quality but the price will be raised up then the consumer will be suffered.

Moreover, discussing the given current issue, it needs to cover the cause-effect interrelation between the problem.

Political (cause)	Economical (cause)	Technological (cause)	US ban on ZTE & Trade Wars (Effect)
– China has gained a strategic position in the International Market, and it has important allies (besides handling US deficit, now over 800 mln \$).	– Unbalance trading with foreign Countries has brought (most of the times) to a loss for the US. The US has adopted a protectionist policy.	– China has been accused to ‘steal’ Western know-how on Technology.	
– NAFTA and Europe are an important commercial partner but the US could redefine commercial agreement.	– Globalization is a menacing job positions and enterprises. – Increase of job vacancies.	– China is partnering with important Countries.	

Figure 4 – Cause and effects of the ban on ZTE trade wars in the context of Ishikawa cause and effect model

Note: Source – Compiled by authors on the base of official data of World Bank, available at: www.tradingingeconomics.com; Ishikawa K., 1982.

For this purpose, it has been used Ishikawa modeling. Figure 4 is presented Ishikawa diagram explaining the cause-effect interrelation between the problem (or effect): ‘US Trade Wars’ and the causes which has brought the US to adopt these severe actions against China, especially announcing the ban on ZTE in the US, and the rest of the world (Caroline, 2017; Hunkar, 2017).

Thus, there are many solutions that might solve a Trade War. Definitely, once commenced, a trade war cannot bring to a sole winner. Both sides will face losses which are common in the Business environment. The US wants to attack the Chinese Economy in order to raise its own and become stronger than before.

A forecasted solution for us, might be the chance to find a deal and we recommend that by «compromising» those big Economies will partner

again to bring major investment in their Countries and in the Global Economy, only by sitting together at the table and find a common solution they will be able to close the Trade War.

Conclusion

Nowadays the US-China trade disputes are the current issue of great global impact and significance. Thus, this paper presents the most contemporary analytical review of this current economic situation based on the latest data of 2017-2018.

In the article, it is considered the current trade and economic issues between the United States of America and China. In particular, in the given research, it has been studied the urgent problems of trade and economic relations between the United States and China in the field of the international

telecommunications industry were studied, in the case of the ZTE Corporation. It has been analyzed the current economic, social and political aspects of trade relations between the United States and China in the context of the ZTE case. It has been detected advantages and disadvantages for both countries based on economic methodologies and analytical tools.

The primary research methodology of this paper is based on conducting the comparative analysis of existing patterns of macroeconomic development, political differences and social issues within China

and the US. The given analysis is based on SWOT, PESTEL, Ishikawa cause and effect modeling, risk identification techniques as well as the five forces model by M. Porter detecting competitive advantages for the countries mentioned above. It is also implemented the systematic vision and expert assessment.

Moreover, it has been considered the possible solutions and recommendations on how to improve the current macroeconomic relations between given countries in the context of the given ZTE corporation.

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