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USA-CHINA TRADE POTENTIAL; AN EMPIRICAL ANALYSIS

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ABSTRACT

This study aims to assess the potential of bilateral trade between China and the United States of America. To reach this objective, an historical evolution of trade between the two countries since 1970 is held first and divided into three periods. Then, trade indicators are used to evaluate the importance of this potential; trade complementarity index, exports similarity index, revealed comparative advantage and bilateral revealed comparative advantage. These indicators are calculated for a period of time from 2001 to 2020.
Results show a great complementarity and moderate competitiveness in export markets between the two countries, where the revealed comparative advantage shows a great number of products where the two countries have high values. Although, bilateral comparative advantage shows that USA could benefit from aeronautic and food industry exports toward China, while China could benefit from railway, light and textile industry exports toward USA. The new trade agreement and more trade facilitation could make trade between the two countries to reach its full potential.

Keywords: bilateral trade, Revealed Comparative Advantage, China, USA, Trade potential.
JEL Codes: F14, F51, C43

1. Introduction

The relationship between the two major world powers, the United States of America and the People's Republic of China, or what is referred to Sino-American relations, is characterised by competition in some areas and cooperation in others. The mutual trade, most important bilateral link of the 21st century, and investment relationship between the two countries could be beneficial to both sides (Morrison, 2018).

Trade flow between the two countries has faced great transformations. Initially, in January 2009, China was the third-largest buyer of U.S. goods and services, while the United States was China's second-largest export market (The US-China business council, 2021). Moreover, from the beginning of 2015, China has largely overtaken Canada and Mexico, main partners of the USA and part of the North American Free Trade Association Agreement (NAFTA) established between these three countries in 1994, becoming the main partner of the United States (USA). During the same year, the amount of trade between U.S and China is estimated at 441.56 billion USD, while Canada moves into second place with a volume of trade amounting to 438.1 billion USD.

Compared to 2014, U.S. trade with Canada fell by nearly 12% or 57.5 billion USD, and that with China, increased by 4% or 15.7 billion USD. This situation continues until 2020, with a value of 457.1 billion USD of U.S. imports from China, compared to 212.6 billion USD (TradeMap, 2021) of U.S. exports to China, which places China as the third largest customer for U.S. exports after Canada and Mexico. It should be noted that exports from the U.S to China are lower than imports, it shows a trade balance deficit of 332.5 billion USD in 2020, lower than 2018 where the deficit reached 443 billion USD (TradeMap, 2021).

A China-USA bilateral relation in the last years was also marked by a great trade war between the two, initiated by protectionist measures from the USA. This war was characterised by rising taxes for products imports from the opposite country. This situation prevented China and USA to exploit all the trade opportunities between them.

Thus, this paper aims to evaluate the potential of trade between China and USA and the prospects of the exchanges between these two countries. To reach this objective we use trade indicators; trade complementarity index (TCI) and exports similarity index (ESI) to evaluate complementarity and competitiveness between the two countries, then revealed comparative advantage (RCA) and bilateral revealed comparative advantage (BRCA) to define what are the products where the two countries could benefit the most from their bilateral trade.

The originality of the study lies in the fact that it, unlike other studies that focus mainly on current trade between the two countries, this paper aims to assess the unexploited potential of trade between the two countries and what are the areas of exchange that could let them reach this potential.

We have structured our work in two parts; the first part relates the historical evolution of trade between China and the United States including the trade war of the last decade and the trade agreement. The second part includes the trade indicators used to assess the trade potential between the two countries and identify the products with the highest potential benefit for both of them.

2. Evolution of China-USA Trade:

The first decade from 1970 to 1980:

In 1971, the first engagements were undertaken between the two countries to establish direct contacts in the economic field. Indeed, trade between China and United States increased by 20% in that year (Wang, 2010), following the removal of trade and travel restrictions between the United States of America and China. As a result, USA companies were able to export certain non-strategic goods directly to China and to transport Chinese goods between non-Chinese ports. In addition, the U.S. president also eliminated the foreign asset control that required subsidiaries of U.S. companies to obtain a license related to the export of strategic goods and technologies to the mainland china (Wang, 2013). In 1973, the U.S exported eight inertial navigation systems (INS) for four Boeing 707s sold to China.

After the establishment of full diplomatic relations in 1979, the two governments set out to remove legislative and administrative barriers to trade relations (Wang, 2013). Thus, during this period, U.S. exports to China exceeded its imports, a trade that was marginal at the time not exceeding 1% of total U.S. global trade. By the end of the decade, trade between the two nations doubled from 1.1 billion USD in 1978 to 2.3 billion USD in 1979 and 4.8 billion USD in 1980 (Wang, 2013).

The second decade from 1981 to 1990:

During the 1980s, following economic reforms and normalization of economic relations, China was able to open up to trade in goods and technology. With an annual growth of about 10% of China's GNP from 1983 to 1987 and an annual expansion of 15.8% of international trade. As a result, China's foreign trade increased from 20.6 billion USD in 1978 to 60.2 billion USD in 1985 (Harding & Starr, 1993).

This trade with the U.S. was mutually beneficial; although, US considered it as insufficient. However, by 1984, the United States became China's third largest trading partner, behind Japan and Hong Kong. In contrast, as the fourteenth largest U.S. trading partner, China accounted for a small share of 1.7 % of total U.S. foreign trade in 1988 and 2.2% in 1990 (Wang, 2010). Indeed, the acceleration of trade between China and the United States has been driven by the liberalization of controls on U.S exports of advanced technologies. Thus, an export licensing mechanism was put in place, placing 75% of exports under the exclusive control of the U.S. Department of Commerce.

Unlike the 1970s, when Chinese imports from the United States were mainly iron and steel, in the 1980s they diversified to include grain, chemicals and industrial raw materials, fertilizers, communication and transportation instruments and equipment, wood and chemical fibers. However, manufactured goods and advanced technology products were introduced from the second half of the 1980s (Wang, 2010)

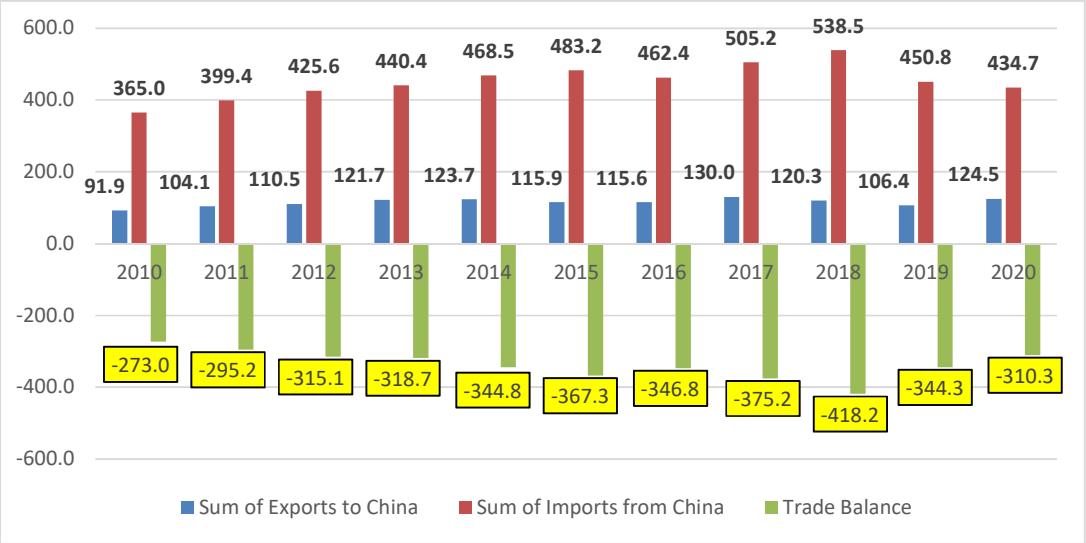
Third decade from 1990 to 2009:

The existing relationship between China and U.S has been marked by a great deal of uncertainty due to various events in the 1990s, including the sharing of geopolitical and geo-economic zones, political conflicts, china's accession to the World Trade Organisation (WTO), and the global economic crisis.

By 1993, the United States had accumulated 32 billion USD in foreign direct investment, followed by China with 27 billion USD in foreign direct investment mainly from Hong Kong, Taiwan, and U.S. From 2002 to 2009, China's international exports grew by an average of 25% per year, with an exceptional drop of 16% in 2009 due to the global financial crisis. Imports averaged about 20% (Kaplinsky & Messner, 2008). As for US exports to China, they rose from 6.3 billion USD in 1991 to 55.2 billion USD in 2006, an increase of 770%. While the total foreign exports of the United States increased by 146% from 421.9

billion USD in 1991 to 1,037 billion USD in 2006 (Wang, 2010). This made China the fourth largest export market for the United States after Canada, Mexico and Japan.

Figure 1. US. Trade in Goods with China 2010-2020 (Billion USD)



Source: Authors, data from U.S. Census Bureau

Since 2010, the volume of U.S. imports from China have marked a significant shift from 365 billion USD in 2010 to 483.2 billion USD in 2015 (U.S Census bureau, 2021)1 and 450.8 billion USD in 2019 (or 18% of total goods imports), registering a slight decline in 2020 or 434.7 billion USD. As for U.S. exports to China, it was 91.9 billion USD in 2010, 115.9 billion USD in 2015 to reach 124.5 billion USD in 2020 (U.S Census bureau, 2021).

Over the last ten years, the U.S. merchandise trade deficit with China has continued to grow, from 273 billion USD in 2010 to 418.2 billion USD in 2018. Import exposure reduces employment and implies, among other things, the loss of competitiveness of U.S. products to products imported from China (Hansen, 2019), while in theory, trade liberalization promotes job creation in all countries. In other words, trade creates employment when the country specializes in the production of goods in which it has a comparative advantage over the production of other products that it must import from abroad.

In the U.S. case, the situation can be justified by the non-application of relevant economic policies that protect the domestic industry through the implementation of subsidies to domestic production and government protection that aims to limit imports from China (U.S-China Economic and Security Review Commision, 2017)2.

It is relatively important to predict the impact of manufacturing imports from China on U.S. industry and manufacturing. Indeed, China has a comparative advantage in the production of low-cost manufactured goods, and the relocation of this production to the United States would lead to a significant increase in U.S. consumer prices and a decrease in real household income (Kaplinsky & Messner, 2008).

The Sino-American conflict and the association agreement in perspective:

[1] https://www.census.gov
[2] https://www.uscc.gov

Considering that trade with China was generating considerable losses, due to the trade deficit recorded (Chong & Li, 2019), the United States of America engaged in a series of measures aimed at taxing imports especially those from China generating a trade war between the two countries.

Thus, in March 2018, U.S introduced tariffs of 25% on steel imports and 10% on aluminium imports, in the name of national security. It temporarily exempts Canada and Mexico, its partners in the North American Free Trade Agreement (NAFTA) and then other countries including those of the European Union. But not China. In response to this taxation, China retaliated in April of the same year by applying punitive customs duties of 15% to 25% on nearly 128 American products (fresh fruit, wine, meat, aluminium) (Itakura, 2019).

The United States has launched a second round of tariffs of 25%, covering nearly 50 billion USD of imports from China, another one on nearly 34 billion USD in July and 16 billion dollars in August 2018. The targeted products covers different sectors including aeronautics, information and communication technology or robotics, machinery and automotive. As a result, China reacted again by imposing a 25% tariff on 50 billion USD worth of imports from the United States. In September, the United States targeted 200 billion USD in imports from China by imposing a 10% tariff (Itakura, 2019). China in turn surtaxes 60 billion USD of U.S imports.

In December 2018, the two countries decided on a solution to this trade war through the suspension of over taxation for a period. In May 2019, hostilities resume, the United States raised taxes on 200 billion USD of Chinese imports to 25%, China also decided to withhold additional tariffs on 60 billion USD of U.S imports (Chong & Li, 2019).

Since August 2019, the United States targets almost all Chinese imports, 300 billion dollars, and 125 billion USD are applied a tariff at 15%. This is in addition to the imports already taxed at 25% in September 2018 (Kapustina, et al., 2020). For its part, China is implementing its retaliation with a surtax of 5 to 10% on about 75 billion USD of U.S. exports to China. As a result, U.S. exports to China declined by about 7% in 2018, and are accelerating to a 19% reduction in the first quarter of 2019. While Chinese exports to the U.S. still grew in 2018 by 7%, and fell in the first quarter of 2019 by about 13% (Bekkers & Schroeter, 2020).

In December 2019, the two countries arrange to establish an agreement to appease the reprisals; it involves the gradual reduction of tariffs imposed on Chinese products during the next four years. Thus, it was agreed to proceed with the reduction of 7.5% of tariffs on 112 billion USD of imports in the third quarter of 2021.

According to the Oxford Economics report on U.S-China economic relations, a further 12.5 percent reduction in tariffs on 250 billion USD of imports from China by the end of 2022, with China reducing tariffs on U.S. imports by the same amount (The US-China Business Council, 2021). The agreement also covers issues related to intellectual property protection, technology transfer, food and agricultural products, financial services, exchange rates, trade enhancement and dispute resolution.

All these actions, limited China and USA trade, but would both countries benefit from a more cooperative approach? Thus, we will evaluate the potential of trade opportunities between the two countries in order to assess the benefits of a better cooperation.

3. Method

Many indicators can be used in order to evaluate the trade potential between China and U.S. In this study we rely on three important indicators; the trade complementarity index TCI, export similarity index ESI to assess if there is a competitiveness or complementarity between the two countries and finally introduce the revealed comparative advantage RCA to discover the sectors where each country will gain the most benefits from increasing trade.

First we use , the trade complementarity, or compatibility, index TCI that was introduced by (Michaely, 1996). This index is a measure of natural trade potential between two countries. it evaluates how degree the exports structure of one country matches the imports structure of the second one and vice-versa (Ibrahim & Shehu, 2016). Thus it can indicate whether a preferential agreement is relevant or not.

The trade complementarity index TCI is expressed mathematically as follow:

$$TCI_{j/k} = 1 - \sum_{i}^{n} \frac{\left|M_{ik} - X_{ij}\right|}{2}$$

Where Xij represent the share of good i in total exports of country j and Mik the share of good i in total imports of country k. The index ranges from 0 to 1. It is equal to 1 when exports of country j exactly match imports of country k, in other words the first country exports exactly what the other one imports. I the other hand, TCI is equal to 0 when none of the goods exported by j is imported by the country k.

Second, the export similarity index ESI, introduced initially by (Finger & Kreinin, 1979), measures the similarity of export patterns of two countries or group of countries to a third market. Thus it represents the competitiveness in exports of the two countries. This index has the advantage of not being affected by the relative size or scale of exports.

The export similarity index ESI mathematical formulation is expressed as follow:

$$ESI_{jk} = \left\{\sum_{i}^{n} min\left(\frac{X_{jc}^{i}}{X_{jc}}, \frac{X_{kc}^{i}}{X_{kc}}\right)\right\} * 100$$

Xijc represents the good i exports of the country j to the third market c, while Xjc are the total exports of country j to the third market c. Xikc represents the good i exports of the country k to the third market c, while Xkc are the total exports of country k to the third market c. The value of this index ranges from 0 to 100. The bigger value of ESI the harsher is the competitiveness between the two countries, when exports of the two countries are exactly similar the value is 100, in the other hand if their exports are totally dissimilar the index take the value of 0 (Finger & Kreinin, 1979).

Finally, elaborated by (Balassa, 1965) based on Hecksher-Ohlin theory, the revealed comparative advantage RCA is used to measure the export potential of a country by revealing its relative advantage or disadvantage in a specific industry (French, 2014). This index suggests that comparative advantage is revealed by observed trade patterns that reflect differences in factor endowment between countries (Simsek et al., 2017).

The revealed comparative advantage RCA is expressed mathematically as follow:

$$RCA_{ji} = \frac{\frac{X_j^i}{X_j}}{\frac{X_w^i}{X_w}}$$

Xij represents the country j exports of goods i and Xj total exports of country j, while Xiw represents world exports of good i and Xw total world exports. When the value of the indicator is higher than 1 the country has a comparative advantage in the considered good, while when the value is lower than 1 the country has a comparative disadvantage in the said good.

4. Findings

Trade Complementarity Index (TCI):

The results of the calculated TCI for respectively China/USA and then USA/China from 2001 to 2020 are expressed in the next table:

Table 1. Trade complementarity index China/USA (2001-2020)

	TCI (China/USA)	TCI (USA/China)
2001	0,64	0,69
2002	0,65	0,70
2003	0,64	0,71
2004	0,64	0,69
2005	0,63	0,66
2006	0,62	0,66
2007	0,62	0,63
2008	0,60	0,64
2009	0,63	0,65
2010	0,63	0,68
2011	0,62	0,69
2012	0,64	0,67
2013	0,64	0,66
2014	0,66	0,69
2015	0,67	0,67
2016	0,68	0,67
2017	0,68	0,68
2018	0,67	0,69
2019	0,67	0,69
2020	0,68	0,68

Source: calculated by authors, using Excel2010 and data from TradeMap

The trade complementarity index for China and USA, as both exporter and importer, ranges in the studied period from 60% to 70% and increasing values for China from year to year. The potential benefit is exactly equal in 2020 with 68% for each country. These values demonstrate a good complementarity between the two countries and so each of them would benefit from increasing bilateral trade.

Next, the export similarity index will be studied to assess if there is competition between the two countries in export markets.

Export Similarity Index (ESI):

The results of the calculated exports similarity index between China and USA from 2001 to 2020 are expressed in the next table:

Table 2. Exports similarity index China/USA (2001-2020)

	ESI China/USA
2001	59,46
2002	61,07
2003	62,86
2004	61,51
2005	61,68
2006	61,53
2007	59,32
2008	58,40
2009	55,01
2010	55,86
2011	55,91
2012	56,14
2013	55,30
2014	55,92
2015	55,05
2016	54,96
2017	54,95
2018	54,15
2019	53,78
2020	54,71

Source: calculated by authors, using Excel2010 and data from TradeMap

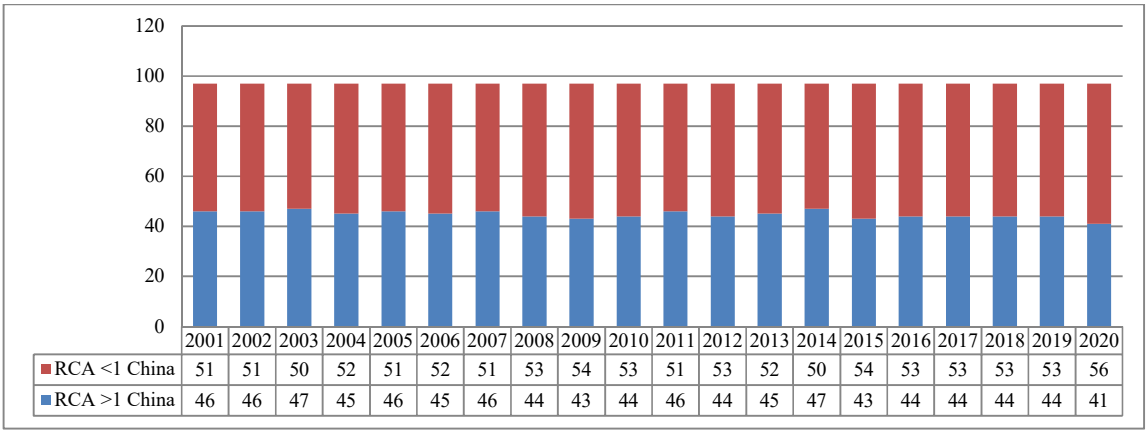
The export similarity index between China and USA ranges from 53 to 62, indicates an important and high competition in export markets between the two countries. Additionally, its value is decreasing from year to year, indicating that the degree of specialization of China and USA is higher and a better compatibility between them (Wang & Liu, 2015) even if competition between them is ranked as medium.

To take further our research by determining the sectors where each country will benefit from their complementarity we will study the comparative advantage of each country in each good.

Revealed Comparative Advantage (RCA):

The next two figures show the number of goods where China and USA has a comparative advantage, in blue, and those where they have a comparative disadvantage, in red.

Figure 2: Revealed comparative advantage for China (2001-2020)

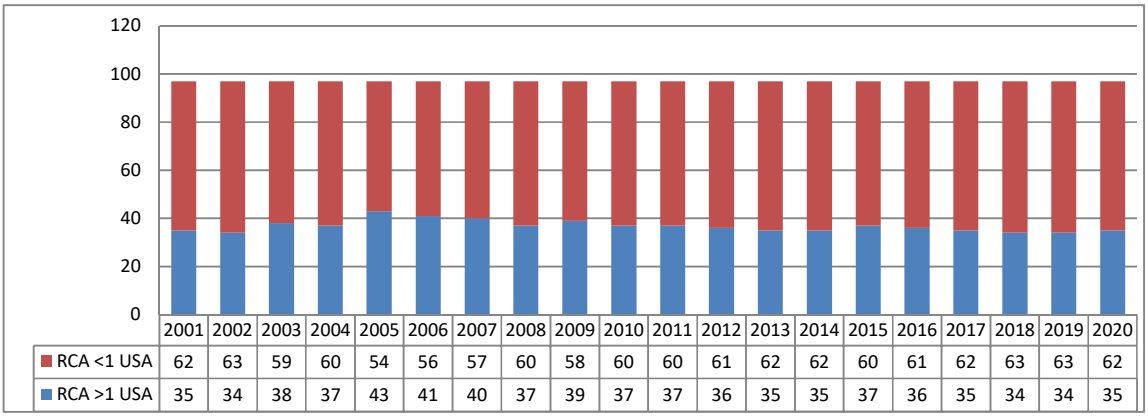


	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
RCA <1 China	51	51	50	52	51	52	51	53	54	53	51	53	52	50	54	53	53	53	53	56
RCA >1 China	46	46	47	45	46	45	46	44	43	44	46	44	45	47	43	44	44	44	44	41

Source: calculated by authors, using Excel2010 and data from TradeMap

During the last twenty years, China has kept the number of industries involving revealed comparative advantage/disadvantage unchanged with a slight variation of two to three products in the world market, with an average of about 53 industries with revealed comparative disadvantage (RCA<1) and nearly 44 products with revealed comparative advantage (RCA>1). Thus, China has approximately 44 products where it could potentially benefit from exporting.

Figure 3. Revealed comparative advantage for USA (2001-2020)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
RCA <1 USA	62	63	59	60	54	56	57	60	58	60	60	61	62	62	60	61	62	63	63	62
RCA >1 USA	35	34	38	37	43	41	40	37	39	37	37	36	35	35	37	36	35	34	34	35

Source: calculated by authors, using Excel2010 and data from TradeMap

U.S. industries with a comparative advantage vary from 35 to 41 categories in 2006; this number has decreased to 34 industries in 2018. Between 2001 and 2020, U.S. industries with RCA>1 varied between 54 and 62 industries. The results show that USA could potentially benefit from exports of 35 products. Although the revealed comparative advantage is a general indicator, bilateral revealed comparative advantage is more adequate for bilateral relations.

Bilateral Revealed Comparative Advantage (BRCA):

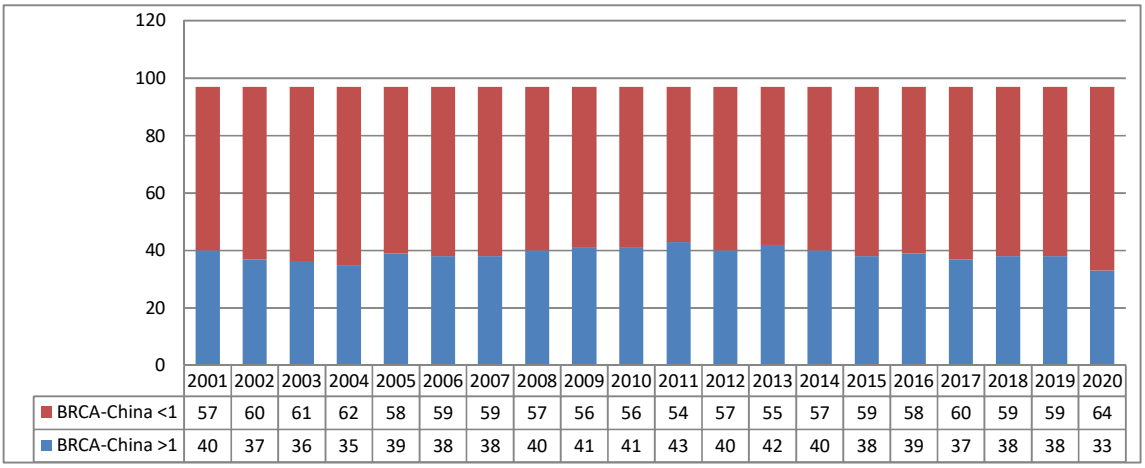
The RCA can also be derived in a regional or bilateral level, as used by (Chang, McAleer, & Nguyen, 2019) based on (Utkulu & Seymen, 2004). This index is used to assess comparative advantage for an exporting country on an importing market compared to what

world exports to the latter. Thus, the mathematical formulation of the bilateral revealed comparative advantage BRCA is as follow:

$$BRCA_{ji} = \frac{\frac{X^{i}_{jk}}{X_{jk}}}{\frac{X^{i}_{wk}}{X_{wk}}}$$

Xijk represents country j exports of good i to country k, while Xjk represent total exports of country j to country k. While, Xiwk represents world exports of good i to country k, while Xwk represent total world exports to country k

Figure 4. Bilateral revealed comparative advantage for China (2001-2020)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
BRCA-China <1	57	60	61	62	58	59	59	57	56	56	54	57	55	57	59	58	60	59	59	64
BRCA-China >1	40	37	36	35	39	38	38	40	41	41	43	40	42	40	38	39	37	38	38	33

Source: calculated by authors, using Excel2010 and data from TradeMap

The figure above shows that the number of industries with comparative disadvantage (BRCA<1) is higher than the number of industries with comparative advantage in the American market, ranging from 54 to 64 over the period from 2001 to 2020. On the other hand, the number of BRCA>1 industries varies from 35 to 42 over the last 20 years reaching their lowest level of 33 industries in 2020.

Table 3. Top10 BRCA products for China (2011-2020)

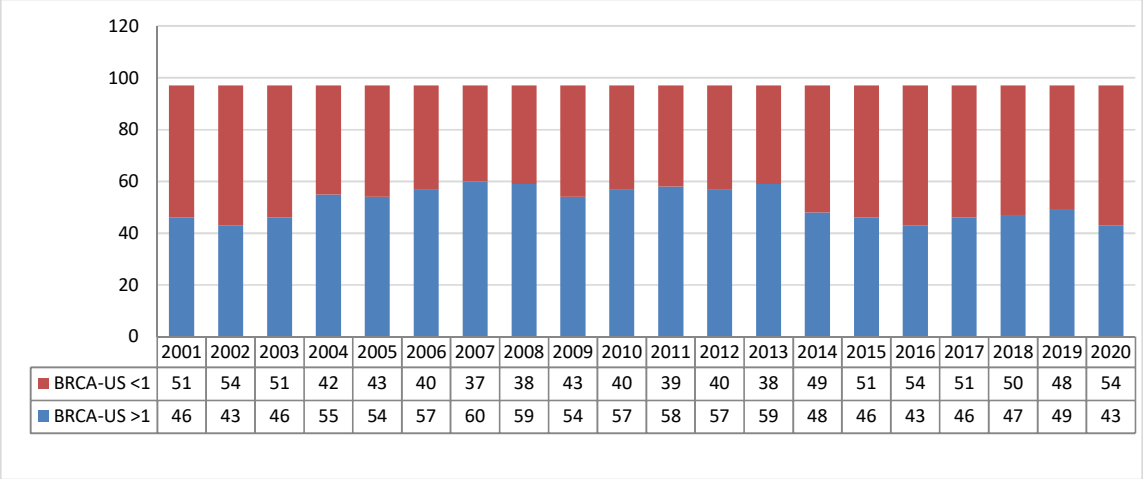
Code	Product	BRCA CH	BRCA USA
86	**Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electromechanical) traffic signalling equipment of all kinds**	**8,51**	**0,97**
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles . . .	6,42	1,33
66	**Umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof**	**4,72**	**0,75**
46	**Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork**	**3,76**	**0,69**

60	**Knitted or crocheted fabrics**	**3,58**	**0,74**
63	**Other made-up textile articles; sets; worn clothing and worn textile articles; rags**	**3,17**	**0,73**
42	**Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles . . .**	**3,03**	**0,33**
95	Toys, games and sports requisites; parts and accessories thereof	3,02	2,20
65	**Headgear and parts thereof**	**2,95**	**0,96**
58	**Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery**	**2,93**	**0,44**

Source: Authors

Table 3 shows the 10 product with highest bilateral comparative advantage in average for ten years, from 2011 to 2020, compared to the BRCA value for the same products for USA. As we can see, 08 out of top10 products have a comparative disadvantage for USA which means a great benefit for the two countries to trade said products. The concerned items are mainly; railway products (locomotives, rolling stock…), textiles (knitting, sets, worn textiles….) and sewing related light industries (Umbrellas, straws, leather products….).

Figure 5. Bilateral revealed comparative advantage for USA (2001-2020)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
BRCA-US <1	51	54	51	42	43	40	37	38	43	40	39	40	38	49	51	54	51	50	48	54
BRCA-US >1	46	43	46	55	54	57	60	59	54	57	58	57	59	48	46	43	46	47	49	43

Source: calculated by authors, using Excel2010 and data from TradeMap

The figure above shows the number of industries that have a revealed bilateral comparative advantage/disadvantage, thus, the figures show that the United States involves a higher number of BRCA>1 industries than those of BRCA<1 in Chinese markets, this is between 2004 and 2013. also, comparing the BRCA>1 of Chinese products in the US markets to the US BRCA>1 products in Chinese markets, it is found that the number of BRCA>1 industries is higher in the United States than in China.

Table 4: Top10 BRCA products for USA (2011-2020)

Code	Product	BRCA USA	BRCA CH
97	**Works of art, collectors' pieces and antiques**	**8,73**	**0,06**
88	**Aircraft, spacecraft, and parts thereof**	**8,64**	**0,17**

36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	7,84	1,94
12	**Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder**	**4,70**	**0,38**
10	**Cereals**	**4,42**	**0,02**
23	**Residues and waste from the food industries; prepared animal fodder**	**4,09**	**0,94**
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	4,08	1,47
37	**Photographic or cinematographic goods**	**3,76**	**0,15**
20	**Preparations of vegetables, fruit, nuts or other parts of plants**	**3,63**	**0,86**
76	**Aluminium and articles thereof**	**3,42**	**0,89**

Source: Authors

Table 4 shows the top 10 products for which the U.S has the highest bilateral revealed comparative advantage, in average for ten years, from 2011 to 2020. Namely, Aircraft (spacecraft, and parts thereof), Oil seeds and oleaginous fruits (miscellaneous grains, seeds and fruit…), Preparations of meat (fish, crustaceans, molluscs..), cereals and aluminium. On the other hand, China has a revealed comparative disadvantage in the production and export of 8 of these products, which represents an exchange potential for both countries. Thus, both sides gain from the trade, U.S exporting the products in which it has the most productivity and China procuring products in which it is disadvantaged.

5. Conclusions

This research aimed to assess the China-USA bilateral trade potential. Results show first that trade between the two countries was increasing since establishment of the trade relations between the two countries in early 1970's and had a positive evolution. But in late 2010's the competitiveness between the two countries led them to establish restrictions and taxes over each other products resulting in an intensive trade war, initially launched by the United States, through several waves of tariff increases on different products (Fajgelbaum, Goldberg, Kennedy, & Khandelwal, 2020).

Assessing the impact of this Sino-US. trade friction on China's well-being, it has been found that the negative impact on China is greater than it is on the US, similar to (Dong & Whalley, 2012) (Ding, Guo, Wu, & Yu, 2022). In the other hand, the growth of Chinese imports and the number of firms engaged in China-U.S. trade has brought significant gains to U.S. consumers: About two-thirds of these gains can be attributed to price changes while the remaining third is due to variety gains (Pierce & Schott, 2016). Although Chinese imports allow the entry of new goods, this effect is somewhat mitigated due to the exit of varieties already consumed. Nevertheless, we see an overall positive contribution. These are the substantial gains for U.S. consumers from the recent growth in trade with China (Bai & Stumpner, 2019)

Fortunately, the two countries agreed to a bilateral trade agreement that could benefit the two of them and let them exploit their full potential. Among others, the Regional

Comprehensive Economic Partnership (RCEP) slightly benefits China by reducing the negative impact of China-US trade friction by 11.92%, with Manufacturing of Metal Products being the largest contributor to this effect (Ding, Guo, Wu, & Yu, 2022). Altough, the potential between the two countries is yet to be fully exploited.

To evaluate this potential, some trade indicators were mobilised. Those indicators showed a good complementarity between the countries, referring to TCI, this complementarity is raising from year to year suggesting good cooperation perspectives. It has also been assessed that competitiveness, through ESI, is relatively moderate, attesting even more of the benefits of cooperation between the two countries. This result is similar to (Shen, Guobing; Gu, Anthony Yanxiang, 2007) that explains that China-U.S. trade is mainly cross-sectoral, the complementarity between the two countries continues for a long time due to the slow adjustment of China's industrial structures

Given the trade complementarities noted between the two countries, it is natural to observe some differences in terms of the export content of each of the two countries. It should be noted that China is maintaining its foreign trade strategy based on the Comparative Advantage it holds by utilizing its resources and factors of production and developing labor- and resource-intensive manufacturing industries in more provinces.

A more product specific analysis through the revealed comparative advantage, show that the two countries have a good number of products with positive comparative advantage where they could benefit from exporting it. Although, bilateral comparative advantage reveals that the two countries share some products where they have an advantage, but highest comparative advantage products for each country have an opposite comparative advantage for the other one. These products include for China railway products, textiles and sewing related light industries and for USA they concern aircrafts, oil seeds and oleaginous fruits, preparations of meat, cereals and aluminium. As has been show by (Shen, Guobing; Gu, Anthony Yanxiang, 2007). In fact, China's industrial structures characterized by labor-intensive products and processing trade, is moving more towards the production of technology- and capital-intensive products that involve sustainable economic and trade growth of the country. Thus, China should improve its foreign trade competitiveness through economy of scale and technical innovation in some developed cities. And also implement the strategy of shifting the industrial scale from coastal provinces to inland provinces and actively participate in the international division of labor to improve its competitive advantage as suggested by Guobing S. (2012).

In the same sens, the study of Bhanumurthy and Kumar (2021) shows that the United States has not shown significant growth in term of Revealed Comparative Advantage of industrial and high-tech exports, while it has gained in intermediate exports. Thus, the dynamics of the trade structure between the countries are amply justified by the long-term growth in their respective comparative advantages (Bhanumurthy & Kumar, 2021)

Finally, the recent trade agreement, if rightly applied, will let the countries exploit their full trade potential, especially in the products where they will mutually have the best benefits. This cooperation will led the two countries toward great benefits for both, especially in the context of China’s expanding markets through the Belt and Road Initiative that reached even Latin American countries. But still USA’s leading technology in many sectors and its economic power make it the best trade partner for China as is China for USA in light industries and textiles. Thus, these countries must adjust their policies for more trade facilitations and avoid any economic war.

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