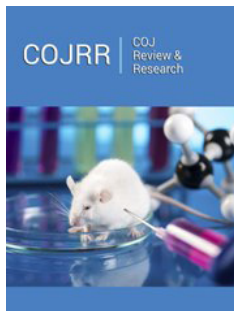


The Motives, Measures and Influence of the US Reshaping Manufacturing Industry

Qingxin lan* and **Lexiang Zhao**

School of International Trade and Economics, China

ISSN: 2639-0590



*Corresponding author: Qingxin lan, School of International Trade and Economics, China

Submission: 📅 October 24, 2019

Published: 📅 October 30, 2019

Volume 2 - Issue 2

How to cite this article: Qingxin I, Lexiang Zhao. The Motives, Measures and Influence of the US Reshaping Manufacturing Industry. COJ Rev & Res. 2(2). COJRR.000535.2019.

DOI: [10.31031/COJRR.2019.02.000535](https://doi.org/10.31031/COJRR.2019.02.000535)

Copyright@ Qingxin lan, This article is distributed under the terms of the Creative Commons Attribution 4.0 International License, which permits unrestricted use and redistribution provided that the original author and source are credited.

The Motives

Economic confidence has been declined and the social contract has been completely reshaped. After the financial crisis, the US GDP growth rate did not rebound sharply. It only maintained a growth rate of around 2%. The average real income of American households did not return to pre-crisis levels until 2015. The existing development model faces reshaping. The government's rigid spending pressure pushes the redistribution of wealth to speed up, and the policy direction of competing for demand inhibits global trade development. The relationship between the government and wealth has undergone fundamental changes. Large amounts of money have been eliminated, debts have gradually disappeared, and asset competition in offshore markets has intensified. The rise of American manufacturing culture. Non-black and white is the main connotation of American manufacturing culture. This simple and direct culture is prone to conflicts, leading to rising demand for absolute authority and increased risk of misleading information. The decline of the middle class is the soil for the manufacturing culture. The white death rate of 50-55 years old is 4 times that of Hispanics and twice that of black people.

The Measures

After Trump took office, he believed that revitalizing manufacturing was the key to economic transformation. The current account deficit has long dragged on US growth, manufacturing, employment and household income growth, so American government established a development import substitution strategy to reverse the long-term deficit out of control. High-standard manufacturing is a key fulcrum for import substitution strategies. The first is to re-establish American technology and electronics industry chain to replace the electronic products produced in China. At this stage, the United States believes that the high-standard manufacturing industry is embodied in the Internet of Things, but its drawback is that network security is vulnerable to attacks. After external intrusion into the Internet of Things, it will attack other systems connected to the Internet of Things. The United States believes that Chinese hackers will attack and manipulate the US Internet of Things system. Therefore, the United States adopts exclusive treatment for Chinese enterprises in the entire IoT hardware system, and untrusted enterprises cannot access the US Internet of Things system. The second is to crack down on China's production supply chain and increase non-Chinese manufacturing options. The fundamental purpose of Sino-US trade war is to curb the high-end transformation and upgrading of China's production supply chain.

Combating China's production supply chain and reducing China's exports of technology products to the United States will not only help reverse the trade deficit between China and the United States, but more importantly, it will be based on national strategic security considerations. The third is to re-establish manufacturing standards. As the US trade tariff measures have covered almost all of China's exports, the US export supply chain has begun to move out of China, and the US trade strategy has turned more to compete for future manufacturing standards. The manufacturing investment under the existing pattern and standards faces extreme impact. The important reason for the US to crack down on Huawei is that he does not allow the 5G standard to be mastered by other countries. The fourth is

to reduce corporate costs and eliminate corporate controls. Tax cuts are an important means of reducing corporate costs in the United States. In April 2019, Trump announced zero taxation in poor areas of the United States (per capita income is 35% lower than the average US income). These poor areas are mainly the receiving areas for new manufacturing capacity. The cost reduction is beneficial to the development of domestic manufacturing in the United States. The production capacity of steel and aluminum has expanded rapidly in the United States, and the rise in basic industrial production capacity has a leading role in import substitution.

The Impact of US Manufacturing Reshaping

The impact of US manufacturing reshaping on the United States

First, the global manufacturing industry torn apart and formed a new US free trade zone. The future Sino-US relations may present a “one world, two systems” situation. In addition to the already signed US-Canada trade agreement, the United States and Japan have also announced the formation of a strategic alliance. Japan fully implements US defense standards and introduces a series of policies to control the export of personnel technology to directly respond to the growing threat from China. In the future, the EU may also join this camp to restrict the export of Chinese technology.

Second, the US manufacturing industry is accelerating backflow and entering a virtuous circle. The US manufacturing FDI has returned significantly, with a 17-fold increase in the past 10 years. The reflow areas are mainly from China, and the reflow industry mainly includes transportation machinery, electrical equipment and components, clothing and textiles, computers and electronic products. In 2018, the American Chinese Chamber of Commerce shows that 17% of US companies in China plan or have returned to the mainland, and this trend will continue to intensify in the future. The number of US business registrations has increased 20 times from 2016 to 2018. Employment demand for capital goods manufacturing has been strong, mining industry has led industry expansion, and manufacturing has entered a virtuous cycle.

Third, US funding needs have shifted from FDI to local investment. The US savings trend has strengthened, and after the manufacturing industry has formed a substitution effect, the demand for foreign capital has weakened and more relies on internal financing. In 2018, US companies' overseas profits repatriated to US\$664.9 billion, and in 2017 they were US\$155.1 billion, an increase of about 4 times. At the same time, the US Tax

Cuts and Employment Act inhibited the transfer of productive assets and profits to low-tax areas overseas. In the first three quarters after the passage of the bill, US direct investment abroad decreased by \$148 billion, while US direct investment in eight overseas tax havens decreased by \$200 billion.

The impact of US manufacturing reshaping on China

First, China may have a shortage of dollars and re-find a currency anchor. Today, the US dollar system mainly relies on the commodity dollar return mechanism, the dollar pricing mechanism for oil trading, and the local currency pricing mechanism of US external debt. Sino-US trade and financial rebalancing has pushed the dollar toward a more independent mode of operation. While US growth exceeded expectations and the US dollar and US bond yields have strengthened, China's current account surplus has declined. Since the US dollar reserve is an important credit basis for RMB issuance, after the Sino-US trade surplus is reversed, the shrinking of the US dollar reserve will shake the credit basis of the RMB issuance, further affecting China's ability to earn foreign exchange. So, the renminbi may need to re-find the currency anchor.

Second, China's fiscal pressure has increased, and PE and VC are facing losses. The fiscal sector faces the double squeeze of income and expenditure and China's aging is obviously accelerated in 2017. Liquidity pressure exceeds expectations, and capital-intensive industries bear the brunt. In terms of financial risks, many PEs and VCs have invested heavily in high-tech industries such as chips and biomedicine. However, the US technology blockade and manufacturing returns will greatly damage the valuation of Chinese technology companies. Commercial banks may be the ultimate loss of this fund and induces systemic financial risks.

Third, Chinese companies face more litigation risks in the United States. The US policy focus on intellectual property protection has led to a significant increase in bottom-up civil litigation. Compared with Sino-US technology policy negotiations, the risk of events brought about by grassroots litigation and export control is more difficult to predict. The US Supreme Court unanimously agreed to the Trump administration's trade policy toward China, which “encourage” more litigation against Chinese companies. The downward pressure on Chinese companies in bottom-up trade litigation has led to more similar ZTE incidents, and the review of Chinese companies and overseas individuals will be greatly enhanced.

For possible submissions Click below:

[Submit Article](#)