

Recalibrating the Politics of Trade War: Sino-US Chronological Trade Competition and its Possible Impacts



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Abstract: *This article delves into the trade tensions between the United States and China, tracing their historical roots and competitive dynamics. Experts in both political and economic circles contend that the U.S. can be held responsible for four pivotal factors that have ignited one of the most significant trade disputes in history. Firstly, it aimed to narrow the trade deficit gap and stimulate employment. Secondly, it sought to prevent Chinese companies from gaining access to American technology and obstruct the digital modernization of China's industries. Thirdly, it aimed to mitigate the federal budget deficit. It's essential to recognize that trade conflicts seldom produce clear winners, as empirical evidence has shown. The U.S.-China trade war occurred against the backdrop of a global economic slowdown, which significantly influenced its trajectory. In this article, we also explore potential outcomes resulting from this trade conflict based on scenario modeling. The authors propose four conceivable scenarios by making assumptions about the changing economic dynamics between the two nations. The article highlights the unmistakable political dimension of the U.S.'s protectionist stance to curtail China's expansion, both militarily and economically, through trade restrictions.*

Keywords: Trade War, Bilateral Trade, Trade Balance, Import Tariff, Economic Sanctions, Economic Incentives, Protectionism, High-Tech Capacity, Worldwide Supply Networks, Global

Introduction

In recent years, China has experienced a rapid rise in economic power, while the US has witnessed a decrease in its global production and trade leadership in the early 2000s. This change has reshaped the global political dynamics, leading to the emergence of the "Group of Two" or "G2" concept. By 2015, China overtook the US as the leading goods exporter, marking its dominant position in international trade. As of now, China's nominal GDP is \$14.72 trillion, positioning it as the second-largest global

economy, only behind the US, which has a GDP of \$20.42 trillion, accounting for 23.3% of worldwide GDP. However, when considering purchasing power parity, China's economic output exceeds the US, with figures at \$24,142.83 billion for China and \$20,932.75 billion for the US (Times 2021). China's middle class has experienced consistent growth over the years. In 2002, it comprised 80 million individuals. Projections suggest that by 2020, this middle-class demographic in China is anticipated to swell to around 700 million, constituting approximately half of the nation's

total population (Statista 2020). The United States holds the second position in the global export rankings, with a total annual export value of \$1,754.58 billion. This figure is considerably lower than China's annual export volume, which stands at \$3,363.96 billion. China has firmly established itself as the world's foremost exporter (Szmigiera 2022). China has historically served as the world's primary hub for cost-effective manufacturing, and it is concurrently evolving into a global technology center with a strong focus on exports. This transformation aligns with the findings of certain Chinese scientists who assert that China's national economic prowess eclipsed that of the U.S in the year 2014 (Suisheng and Guo 2019). Empirical research employing econometric models has confirmed the growing economic influence of China. However, it's essential to note that the United States maintains its supremacy across various key domains, including stock, credit, energy, and commodity markets. Consequently, the United States continues to uphold its position as the preeminent force in the global economy. Given this dynamic, the scientific literature has not yet provided a definitive explanation for the intricate balance that exists between these two economic giants (Zhang and Lei 2019).

The US's quest for global economic supremacy has been met with significant challenges from China. These encompass a widening trade gap, the rise of competitive tech firms in China, and an increase in China's export investments. US officials contend that China leverages its World Trade Organization (WTO) membership and trade liberalization while shielding its domestic market from international rivals using subsidies and manipulating currency to amplify exports. Additionally, China faces accusations from the US of intellectual property breaches, environmental regulation violations, and unauthorized access to American technological insights.

Furthermore, some analysts believe that ex-President Donald Trump, while championing his "Make America Great Again" doctrine, often sidestepped international agreements and norms. In the context of economic nationalism, the US's

protective trade policies are seen by many as driven by domestic priorities. Some of the more outspoken critics even describe it as a kind of economic belligerence (Islam and Cansu 2021). Nations, whether they belong to formal economic entities or loose coalitions, always champion their economic interests. As the US aims to retain its global prominence, there seems to be a shift away from free trade, potentially sparking de-globalization trends and the rise of massive regional alliances. In the global arena, it's challenging for any nation to counteract US protectionism without forming coalitions. Even though the US hasn't wholly embraced China's progressive endeavors, their mutual dependency plays a pivotal role in their ongoing relationship.

Trade wars historically haven't produced distinct victors. Often, both sides undergo economic strains. Yet, the US has often emerged with favorable terms in trade discussions, compelling other countries to yield. On the flip side, China has shown a propensity for flexibility, highlighted by its attempts to slash the trade deficit with the US to \$200 billion and welcoming US businesses to its domestic market. However, US stipulations pose a hurdle to China's "Made in China 2025" initiative, aiming to place China at the pinnacle of ten advanced industries, like AI and robotics. The US contends that China's progress in this venture is partly due to leveraging American innovations.

Rafi Sheikh explores the persistent trade tensions between the US and China, pondering the feasibility of a clear triumph in this intricate economic and geopolitical face-off (Carnegie 2018). In any trade war, there are three clear losers: both the nations engaged in the conflict and the broader global trade landscape, which experiences a decline, ultimately resulting in a halt in worldwide economic growth. Carnegie delves into the escalation of Trump's trade war, while Grossman and Helpman center their attention on trade negotiations and the dynamics of trade conflicts (Grossman and Helpman 1995). The ongoing trade conflict between the U.S and China has been marked by extensive negotiations, resulting in a series of concessions, with China notably adjusting its traditional

stance of safeguarding its domestic market. Chungwei offers valuable insights into the economic consequences of a possible trade war (Li and He 2018). In his research paper, Bouet raises questions concerning the advantages of trade wars and their potential for achieving victory (Bouet 2018).

The purpose of this essay is to delve into the underlying causes, explore potential outcomes, and delineate the impacts of the ongoing trade war on the U.S, China, and the global economy. This inquiry seeks to analyze the progression of the trade dispute between the United States and China, a nation poised to become a significant global economic leader. This examination considers the substantial interdependence between their economies and their shared aspirations to maintain their presence in major global markets. Given the implications of the Group of Two's (G2) exports, foreign operations, and their direct influence on global GDP growth rates, this matter holds utmost significance and relevance.

Methodology

This article employs standard scientific methods of analysis and synthesis to identify the causes and potential consequences of the trade conflict. It examines the volume of trade between the two countries and the duration of the trade war, focusing on key events that illustrate changes in each country's national interests over time. By projecting the internal logic of the conflict, the authors identify the goals and key points that are of particular importance to both nations. The scenario method is utilized to explore potential outcomes. Drawing on systems theory, the authors outline four scenarios based on assumptions regarding response patterns, potential changes in bilateral economic relations, and the degree of feedback: a) Feedback that exacerbates the conflict: This scenario envisions an escalation of the conflict if responses mirror and intensify the tendency to worsen, resulting in the trade war evolving into a Cold War II with comprehensive sanctions and a deteriorating situation. b) Finding compromise solutions: In the event of an inability to agree on how to end the trade war, this scenario envisions

China making significant concessions and many sanctions being lifted to reach a compromise. c) Zero response: This scenario postulates that no new protectionist measures are implemented, and the trade conflict remains frozen on existing bilateral measures, with businesses employing various commercial strategies to evade sanctions. d) Asymmetric response: This scenario suggests that the trade war may worsen, potentially leading to a military confrontation and even sparking World War III.

The Trade War's Chronology and Dominant Factors

The trade dispute began on March 23, 2018, when President Trump enacted the "Presidential Memorandum Targeting China's Economic Aggression." As highlighted by several experts, this memorandum led to the establishment of tariffs on steel and aluminum imports (Vinogradov and Salitsky 2019). Economic tensions between the United States and China had already surfaced earlier and had been a subject of prior discussions. Notably, in 2017, the WTO officially acknowledged China as a market economy, a decision that faced considerable opposition from the United States. The U.S. rejection of China's classification as a market economy marked the initial stage in the escalation of tensions within the "G2" (Dolgov and Savinov 2018). The National Security Strategy released in December 2017 reflected President Trump's aggressive stance. This resulted in the imposition of limits on Chinese investments in American tech sectors, tightened export controls, and an enlarged list of dual-use items prohibited from being sent to China. U.S. businesses faced limitations when dealing with certain organizations, including firms like ZTE Corporation, which was being investigated for possible breaches of U.S. sanctions tied to Iran.

Table 1. Major Turning Points in the Trade War.

| General context and time period | The steps taken by China | The steps taken by US |
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| 2017 (April to May). Trade imbalances will be fixed through high-level talks, and a plan for future trade talks will be made for the next 100 days. | The United States gains more access to China's financial, energy, and agricultural sectors. | There is an ongoing investigation into the importation of steel and aluminum. Additionally, the United States currently allows China to export cooked chicken to its market. |
| 2018 (January to March). Innovation, intellectual property, and technology transfer in China are the subjects of an investigation. The United States has filed a WTO complaint against China for unfair licencing practices. The United States issued a statement in May 2018. | Tariffs on 128 different goods range from 15% to 25%, including recycled aluminum, pork, seamless steel pipes, wine, and fruit. Tariffs of 178.6 percent on imports of sorghum from the United States. | Tariffs for global protection: Imports of aluminum will be taxed by 10%. 25% of steel imports are taxed. Imports of washing machines are subject to a 20% duty. 30% on imports of solar panels. Imposing import duties on machinery, communication, information technology, and aerospace, as well as placing ZTE on the Entity List, are just a few of the steps being taken to put pressure on China. |
| As of July 2018, negotiations are still going on, and new lists of limitations are being talked about internally. | Imports totaling 34 billion US dollars were subject to a 25% duty on 545 items, including aquatic products, automobiles, and agricultural goods. | 818 goods are subject to a 25% duty (on 34 billion US dollars' worth of imports). |
| August 2018 Preliminary lists were exchanged between the parties. China filed a WTO claim and a complaint against the United States. | Tariffs of 25% have been placed on 333 different products, with a total value of 16 billion US dollars in imports. These products include medical equipment, buses, fuel, copper scrap, and coal. | Imports of electric scooters, motorcycles, plastics, chemicals, and semiconductors are subject to a 25% duty totaling 16 billion US dollars. |
| September 2018 China pulls out of the trade talks and releases the White Paper, which explains the official position of the country. | Tariffs of 5% and 10% on imports amount to \$60 billion USD. | Tariffs of 10% (declared subject to additional increases of up to 25% in 2019) would be imposed on \$200 billion in Chinese imports. |
| The G20 conference in Buenos Aires is in December 2018. For a period of 90 days, the United States and China agreed not to | Imports of energy and agricultural items have increased, while tariffs on automobiles and auto parts have been reduced from a maximum | The United States declares that the new tariff list will be postponed. |

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| raise tariffs. | 25% to a normal 15%. | |
| June 2019 – July 2019 Trade negotiations were in full swing before the G20 summit. | Imports worth 60 billion US dollars have been hit with 25%, 20%, and 10% tariffs, which are increases from the previous 10%, 20%, and 5%. | Imports worth \$200 billion will face a 25% duty (up from 10%). The Entity List now includes Huawei as well as five additional Chinese corporations. |
| June 2019 At the Osaka G20 conference. The parties have agreed not to raise tariffs. | The Chinese government has announced intentions to enhance the country's reliance on agricultural imports. | The restriction on Huawei transactions has been re-evaluated. There are 110 goods that are exempt from the 25% tax. |

The G20 summit in Osaka reached a resolution, but almost instantly, exchanges of tariff escalation threats emerged. Chinese companies allegedly halted their purchases of US agricultural products. The US then claimed China was manipulating its currency to offset tariff effects and gain a trade edge. Reacting to this, China initiated a third complaint with the WTO questioning the tariffs' legality. Regardless of the G20 agreement, the US rolled out additional tariffs on \$125 billion worth of Chinese goods. China reciprocated by levying a 5% tax on U.S. oil products and other imports worth \$75 billion. Recognizing the economic strain businesses in both countries were enduring due to the ongoing trade conflict, some products were given tariff exemptions.

Targeted sanctions aimed at Huawei and ZTE considerably impacted these firms' competitive edge and the overarching progress of China's tech sector. Even if China were to make significant concessions, abandoning digital economic expansion entirely seems implausible. The likely path would be a pivot towards cultivating domestic technology and advocating for a worldwide boycott of American products and services.

The issue of US soybean imports remains a hot topic in agricultural trade talks. China suspended these imports in July 2018 but reinstated them by December 2018. Later discussions centered on US farm exports, and to dodge further tariffs, China omitted soybeans and other agricultural exports from additional levies in September

2019.

The US is on a mission to boost employment by bringing capital back home and reinvigorating its industrial sector. Additionally, as a global frontrunner, it's probing into methods to economize. Many in the US believe China plays a role in some of their domestic issues (Suisheng and Guo 2019). The initiation of the Belt and Road Initiative by China is complicating the United States' ability to exert influence in the APR (Kapustina and Lipková 2020). The motives behind U.S. protectionist measures, particularly those targeting China, are driven by a combination of domestic and international considerations, rooted in how the United States perceives its own interests. Imposing tariffs on steel and aluminum imports, for instance, serves to reduce overall consumption in the United States while simultaneously fostering the domestic production of steel and aluminum products. Another contributing factor to these measures may be the persistently stagnant U.S. current account, which, in essence, is an internal issue. The expanding current account deficit in the United States is largely attributed to its trade relationship with the People's Republic of China.

The Trade War between the United States and China can be traced back to four fundamental motivations:

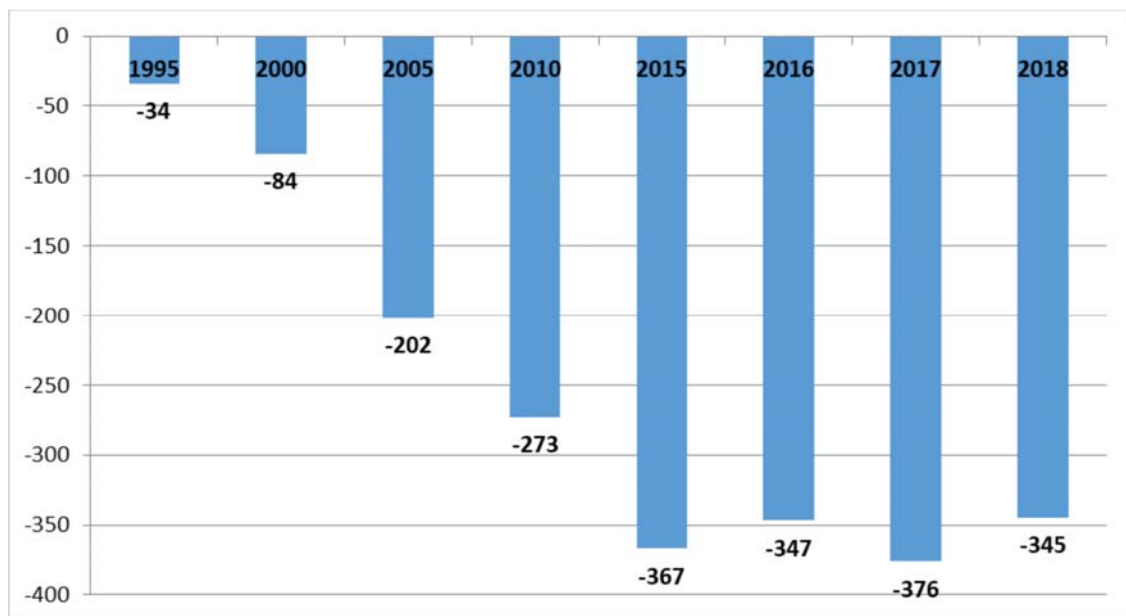
1. To repatriate employment opportunities to the United States and alleviate the bilateral trade imbalance. This aims to narrow the gap in trade levels and create more jobs within the United States.

(Suisheng and Guo 2019). In 2017, China was responsible for a trade deficit of \$376 billion, which represented around 47% of the total \$796 billion U.S. trade deficit—translating to more than half of the entire deficit. The U.S. acknowledges the complexities in its commercial relationship with China, primarily the skewed trade balance. This trend has been developing over many years and generally seems to widen, although there was a noticeable contraction in the trade gap in May 2019.

The U.S. describes its trading terms with China as "unfair" (see Figure 1). A closer look at trade data shows that China mainly imports items that have a significant reliance on American

components. In contrast, the U.S. mostly brings in completed goods from China. Significantly, electrical, and mechanical goods from China make up about 50% of the top ten traded items' total value between the two nations. Moreover, when examining this specific sector, the technological prowess of the U.S. and China appears to be on par (Deng and Pan 2019). China directs 19% of its total exports to the United States. In contrast, a smaller proportion, specifically 8.3 percent of all U.S. exports, find their way to China (Sabanoglu 2022). Due to the implementation of protectionist measures, the volume of goods exported from the U.S to the China declined by 21% in 2018. Conversely, the volume of goods imported from China to the U.S saw a comparatively smaller reduction of 12% (Census 2022).

Figure 1. China-US Trade Difference (the figure's values are all expressed in billions of US dollars).



(Kapustina and Lipková 2020).

2. The ongoing trade conflict is anticipated to curtail China's high-tech capabilities. The United States has expressed discontent with China's limitations on the establishment of joint ventures, especially concerning the transfer of technology as a component of domestic industry's authorized capital. Additionally, a contentious point of contention revolves around whether the Chinese government's investments in the

global economy are fostering unfair competition (Dolgov and Savinov 2018). China's notable success in executing a strategic blueprint for industrial modernization, marked by increased production of network equipment, lithium batteries, robots, and related technologies, has resonated as a clarion call for the United States. In response, the United States has elevated import tariffs on Chinese electronic devices, including telecommunications and

network infrastructure equipment, by as much as 25% (Vinogradov and Salitsky 2019).

3. The primary aim of the trade conflict is to forestall any prospective escalation of China's military might. According to Markov, the United States deems it unacceptable to permit China to attain dominance in the military domain, even in the long-term perspective (Markov 2018). He finds this stance completely indefensible. Consequently, the United States is taking proactive measures to maintain its competitive advantage in matters of national security and to prevent China from utilizing American technology with multifaceted applications.
4. The trade conflict is anticipated to ameliorate the federal government's budget deficit. In line with the research conducted by Dongsheng Di, Gal Luft, and Dian Zhong, they assert that "new revenue streams, such as taxes and levies on Chinese goods, are considered a significant source of income required to balance the United States' budget." Their findings suggest that the United States will necessitate supplementary income sources, such as tariffs, to achieve fiscal balance (Di and Luft 2019). The surge in the United States federal government's budget deficit, which has now surpassed USD 21 trillion, can be partially attributed to the tax cuts implemented in December 2017. Conversely, a more favorable fiscal position enables the Chinese government to offer compensation to any businesses adversely affected by a trade conflict. In contrast, the United States federal government is grappling with a substantial budget deficit, currently standing at around 4% of GDP and projected to increase in the coming years (Legrain 2018).

Four Consequences and Potential Outcomes of the Trade War

The trade conflicts between China and the U.S present a risk not only to the dynamics within the "G2" but also to the broader global economy. It is anticipated that as a direct consequence of the

trade dispute between China and the U.S, the global economy could face a 0.5 percent reduction in its growth rate in 2020 (Costa 2018). World Bank economists used a Computable General Equilibrium (CGE) Model for their economic forecast. Their study indicates that levying a 25% tariff on all Chinese imports to the U.S. could lead to a 3% drop in global exports and a 1.7% contraction in worldwide economic performance. An intensification in the tariff battle between China and the U.S might trigger a global export decrease of as much as 3% (totaling around \$674 billion) and a worldwide income reduction of up to 1.7% (approximating \$1.4 trillion). This would have detrimental effects across all sectors.

The gravest revenue dips are projected for both China and the U.S., with potential declines of about 3.5% (around \$426 billion) and 1.6% (close to \$313 billion) respectively. Within the U.S., the hardest-hit sectors are likely to be agriculture, chemicals, and transportation equipment. Meanwhile, in China, electrical equipment, machinery, and various manufacturing domains may experience the most significant repercussions (Freund and Ferrantino 2018).

As per the OECD's estimations, roughly one third of the components comprising U.S. imports from China originate from other nations. China's exports to the U.S contribute approximately \$329 billion, equivalent to around 2.7% of China's total GDP of \$12 trillion. Hence, even if the newly imposed tariffs led to a 25% reduction in China's exports to the U.S, the direct impact on China's GDP would amount to just 0.7%. While it would undoubtedly have a noticeable effect, the Chinese economy would still manage to sustain an annual expansion rate of 6.1% despite this factor (Legrain 2018). If substantial import tariffs result in a 50% reduction in China's exports to the United States, the direct impact on China's GDP is estimated to be at least 0.43%. When accounting for the cascading consequences of the trade conflict, China's GDP is projected to decline by 1.12%. If further tariffs

are imposed on all imports from China into the United States, GDP losses could potentially exceed 4% (Lau 2019).

As per certain analysts, China's retaliatory response to the U.S. trade conflict could potentially pose a more significant challenge to the American economy than to China's (Markman 2019). Due to nationalist appeals for boycotting American brands like Apple, McDonald's, and KFC, U.S. companies are poised to lose a portion of their customer base in China. Additionally, domestic demand within China for U.S.-restricted products such as ZTE and Huawei is on the rise. Sanctions imposed on ZTE have created a challenging situation for the company since a significant share of the chips used in the production of telecommunications equipment was sourced from the United States, and suppliers in China and Korea were unable to match the volume required (Markman 2019).

The effect on consumers will differ based on their consumption habits. For example, Americans who favor electronic products, often manufactured in China, may experience a more noticeable impact due to the higher prices resulting from the additional tariffs on imported goods. On the other hand, individuals who primarily rely on domestically produced (American) items may encounter less pronounced consequences. Recent research suggests that imposing tariffs on \$200 billion in imports could lead to an average yearly cost of \$127 per household for American consumers (Bui and Irwin 2018). According to Bloomberg's analysis, imposing tariffs on all imports between China and the United States has the potential to cause a worldwide decrease in the global GDP, amounting to \$600 billion. Even if the trade dispute were to be resolved, the current trade restrictions would persist and result in a 0.2% decrease in GDP growth in the U.S and a 0.5% reduction in GDP growth in China over a span of two years (Holland and Sam 2019).

Chinese analysts expect that the escalation of U.S. import tariffs could potentially result in a moderate reduction in China's GDP growth, estimated to range from 0.3% to 0.7%. Terence Tai-Leung Chong and Xiaoyang Li argue that the trade dispute might lead to a more significant

impact, including a 1.1% decline in employment and a 1% reduction in China's GDP. Despite these potential consequences, they may not be overly detrimental to China (Chong and Li 2019). According to C. Fred Bergsten, there are three potential scenarios for the evolution of a trade war:

1. A G0 scenario in which the United States is no longer able to maintain its leadership, while China may not be fully prepared to take on that role. The stability or instability of such a regime remains a question.
2. The possibility of a new G1 emerging, with China eventually assuming a leading position.
3. The prospect of a cooperative G2, wherein the U.S and China reach an agreement to take turns in leading the group (Bergsten 2018).

If the trade war between the U.S and China continues to intensify, there are four potential consequences that may unfold.

1. A Trade War Leading to a Second Cold War

The U.S and China possess distinct cultural traditions and societal norms, both deeply rooted in their histories. It's improbable that either nation will readily relinquish its economic and political systems or conform to the demands imposed or recommended by the other. In this scenario, China may find itself compelled to scale back its production, particularly for exports. Notably, unlike the initial Cold War era, China now stands on more equal footing, thanks to its ability to foster a competitive economy and nurture multinational corporations that have secured positions on the prestigious Global 500 list. The United States is pursuing a strategy aimed at encircling China through the deployment of formidable American military assets, forging alliances reminiscent of NATO, economically isolating China, and imposing penalties for actions that deviate from American approval (Suisheng and Guo 2019).

In the context of China, it will exert concerted efforts to persuade the U.S to withdraw from the Asia-Pacific Region (APR). Conversely, the U.S

will maintain its stance on unilateral sanctions, emphasizing its readiness to engage in negotiations with China to achieve mutually advantageous terms while safeguarding American economic interests. Should other nations perceive threats to their national interests or security, the U.S will accomplish its primary objective, leading to a growing trend of international issue resolution through cooperation among global organizations not involving the U.S. These issues encompass agreements related to climate change, the Iran nuclear deal, the Trans-Pacific Partnership, the July 2018 summit between China and the European Union, among others.

Therefore, the U.S is likely to experience increasing isolation from the international community. The authority of the U.S will continue to decline, resulting in a reduced role in global supply chains and international trade. It is conceivable that the U.S may face exclusion from various regional trade and economic organizations. Success for one American company may signify challenges for others. The American business community, along with its international partners, is expressing growing dissatisfaction, with examples including companies like Ford and Boeing, as well as sectors like the chemical industry and equipment manufacturing.

This isolation could lead to losses in the U.S. government bond market and an uptick in domestic consumer market inflation. In response to American unilateral economic sanctions, other countries will seek alternative suppliers and markets. Despite the United States not participating in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the scope of the Regional Comprehensive Economic Partnership (RCEP), which consists of 16 countries, has expanded beyond that of the CPTPP, now covering 30 percent of global GDP and 50 percent of the world's population (Markov 2018). China has risen to prominence within the RCEP, taking the lead. The China accounts for a substantial 26 percent of its total exports, directed toward other RCEP member nations. This development of a

mega-union enhances China's influence as the dominant force in the region. However, it also raises concerns about potential compromises in international trade standards, as mega-unions often do not address critical matters like human rights, labor rights, public procurement or electronic commerce (Dolgov and Savinov 2018).

Simultaneously, the investment environment within China is expected to deteriorate, and there exists the potential that the realization of the "Made in China 2025" initiative may encounter hurdles, potentially impeding the pace of technological progress within the nation (Dolgov and Savinov 2018). China's investments in research and development have been consistently increasing, though they still fall considerably below the levels seen in the U.S. Research and development expenditures constitute 2.1 percent and 2.8 percent of their respective GDPs. As noted by Kerry Liu, China's capacity to make significant concessions during the trade war is hampered by the economic importance of the "Made in China 2025" initiative for the nation's future. This scenario adds to the challenges China faces in securing a favorable outcome in the trade war (Liu 2018).

2. Striving for Consensus to Avert a Trade War

Resolving a trade conflict necessitates the discovery of common ground and the pursuit of a compromise. The path to a resolution becomes feasible when the United States can demonstrate a genuine respect for the fundamental interests and principal concerns of all involved parties. China has previously conveyed its readiness to make concessions, such as expanding its automotive industry, liberalizing the banking sector, bolstering intellectual property protection, and imposing restrictions on the transfer of American technologies to Chinese firms. Additionally, there's the potential for China to commit to purchasing a substantial quantity of agricultural products from American farmers.

As observed by Edwin L.-C. Lai, China displays eagerness for negotiations and is prepared to

augment its imports of American goods and services, reduce government subsidies to domestic enterprises, and enhance the transparency of technology transfers from the U.S. (Lai 2019). Nonetheless, it is exceedingly improbable that the U.S. will revoke the previously imposed extra import tariffs. However, the possibility of suspending the trade dispute for an extended period is not out of the question. The scenario suggests that "profound and amicable peace between major powers is a rarity in history," but it acknowledges the potential for a more reserved peace or a *détente* between China and the U.S. (Suisheng and Guo 2019). As the trade war continues to drag on, both nations maintain a strong interest in expanding their exports of goods and services, along with the establishment of global supply chains. Given that the conflict stands to inflict greater losses than gains on both sides, the prospect of a negotiated settlement to end the hostilities remains plausible. Despite the intensifying competition, China, and the U.S. are likely to persist as strategic partners. This ongoing interaction will foster a deeper understanding of each other's cultures, strengthening their relationships.

Anticipate an increase in China's imports of natural gas liquids (LNG), high-tech products, food, and agricultural raw materials. The current U.S. government is committed to nurturing trust-based relations with key trade partners and is steering clear of unilateral penalties, thereby aligning with the WTO norms. Leading U.S. corporations will play a pivotal role in this process, engaging in lobbying efforts, advocating for free trade, and emphasizing the drawbacks of a trade war with the rest of the world.

3. A Standstill in the Trade Dispute Due to Existing Bilateral Measures

The ongoing trade war, characterized by enduring import tariffs, has spurred businesses in both nations to adapt to trade under economic sanctions. These companies are formulating innovative strategies to navigate trade restrictions. In today's global economic landscape, companies, rather than governments, take center stage as the primary actors. This

trend is expected to persist, driven by compelling incentives for businesses to discover methods for bypassing sanctions and embargoes, safeguarding and boosting their profits, with the benefits of international trade serving as a significant motivator.

If this scenario unfolds, official data suggests that the U.S.-China trade deficit could reach the targeted amount of \$200 billion, or even potentially less. The trade imbalance is predicted to decrease. Nevertheless, it's worth noting that Chinese goods destined for the American market might be sourced from other countries, including neighboring nations within the Asia-Pacific region.

In response to the fact that China primarily exports products of MNCs with assembly facilities in the PRC, Chinese companies have already initiated the relocation of production units to countries like Ethiopia, Bangladesh, Vietnam, and other places with lower labor costs, as illuminated by Vinogradov, Salitsky, and Semenova. Approximately 59 percent of China's exports to the U.S. consist of products from foreign businesses, while American corporations with operations in China contribute 12 percent to this export mix (Vinogradov and Salitsky 2019).

The U.S. frequently receives products that are assembled in China and comprise a mix of foreign components, often featuring the branding of American companies. An additional 37% of imports into the United States from China consist of various parts and components that are essential for U.S.-based businesses. In response to these dynamics, multinational corporations have initiated the restructuring of their global supply chains, with the potential to relocate the final assembly of their products from China to other Asian nations within the region. These changes are expected to lead to shifts in the geographic composition of both China's imports and exports.

This restructuring aims to achieve more cost-effective manufacturing, particularly at intermediate and lower tiers of the global supply chain, even if the final assembly remains in China. To illustrate, let's take the example of

iPhones exported from China to the U.S, with an annual value of USD 2 billion. However, it's important to note that only a small portion of the product's total value is generated in China. This is because the electronic device's manufacturing takes place in Taiwan, incorporating components from various countries, including Singapore, the Netherlands, the U.S., Japan, Korea, Germany, and others (Savinov and Zelenuk 2019).

Trade wars yield several outcomes, including shifts in export-import patterns, a reorientation towards other nations, the creation of regional free trade zones, and the development of economic alliances. Lawrence J. Lau highlights the transformation in China's international economic ties, which now encompass nations and regions like the EU, the ASEAN, Russia, and Japan (Lau 2019). Analyst observations indicate an increasing inclination towards strengthening trade and economic connections between China and the European Union. Furthermore, the Asian market is progressively becoming more pivotal for the European industry compared to the United States market (Dolgov and Savinov 2018).

Over the last ten years, the expansion of consumer spending in China has outpaced that in the United States by a factor of four. Iqbal and Rahman assert that the trade war is poised to cause losses for both parties involved, but it might prove advantageous for other nations. They argue that if the two largest economies in the world, China, and the U.S, were to concede and cease trading with each other, it would inevitably trigger a ripple effect throughout the entire global trading system (Iqbal and Rahman 2019). Iqbal and Rahman contend that while the trade conflict might lead to setbacks for both warring parties, countries with strong domestic markets could potentially benefit. The U.S.'s protectionist stance could place nations with already thriving domestic markets in an advantageous position.

Since the onset of the trade dispute, during which the U.S. curtailed imports from China, six Southeast Asian nations, along with Taiwan, have proactively introduced almost 1,600 new

types of products to the U.S. market that weren't previously available. This move aligns with the U.S.'s endeavors to reduce its imports from China (Novosti and Dembinskaya 2019). The significance of the Chinese market for many U.S. businesses is immense. Limiting their access to Chinese customers might lead to significant financial repercussions for these firms. To address this, they are actively exploring strategies to navigate the sanctions and continue their business pursuits. While the U.S. might achieve a reduction in its trade deficit with China, it might come at the expense of broader economic efficiency.

4. Escalation of Trade Disputes and the Risk of World War III

The persisting trade tension has the unsettling potential of moving beyond its current confines to a more severe juncture, especially given that the U.S. retains the option of limited nuclear deployment. Terence Tai-Leung Chong and Xiaoyang Li have noted that the U.S.-China trade standoff is deeply rooted and not apt to find a straightforward resolution, given its core complexities. This situation accentuates the risks tied to a potential exacerbation of the trade conflict (Chong and Li 2019). At the heart of this dispute is the race for worldwide economic dominance. The U.S. holds a significant advantage in the digital domain and is fervently working to expand its cyber footprint globally. As highlighted by Ashmanov, most of the world's neural computing infrastructures are in the U.S, with major tech corporations like Google and Facebook leading the pack (Smirnov 2019). The U.S, through its actions, displays a readiness to set aside agreements and commitments that don't align with its interests. Furthermore, it often sidesteps the United Nations and other global institutions, asserting its right to undertake independent military initiatives. This behavior mirrors the stance adopted by the British Empire in the aftermath of World War I (Savinov and Zelenuk 2019). Although the probability of this situation unfolding is minimal, it shouldn't be completely ruled out.

Trump's individualistic stance against China,

which appears to conflict with the rules of the WTO, has significantly intensified the matter. Trump's "America First" narrative has also alienated potential allies. Consequently, China has secured a political upper hand, with Beijing's declared position being, "China isn't pursuing a trade war but won't back down from one either." It's crucial to highlight that China's inclination is to sidestep a trade conflict (Legrain 2018).

Conclusion

The current trade standoff, touted as one of the largest in economic annals, holds the power to redefine global trade dynamics and exert a chilling effect on financial arenas. Countries may polarize into two main factions: those siding with the U.S. and those leaning towards China. However, these factions could also merge to establish formidable economic conglomerates and regional monetary zones. This shift is set to thrust Asia to the forefront of global economic operations and dictate the direction of worldwide supply chains.

The U.S. is aggressively crafting tactics that span the economic, political, and security realms, all with the objective of undermining its chief competitor and retaining its standing as the foremost global superpower. The current international trade approach of the U.S. is designed to put the brakes on the meteoric rise of China and its expanding global economic footprint. On the flip side, China is laser-focused on pioneering fields such as robotics, biotech, and AI, pumping substantial funds into its high-tech sectors. Their goal is to ensure the U.S. doesn't hinder China's digital and modernization trajectory.

The existing economic interplay between the U.S. and China has been coined the "Cold Trade War." Yet, amidst their divergences, the intertwined economic stakes of both nations stand undiminished. Central to ongoing talks is the crafting of a fresh, balanced trade pact, often dubbed a "new trade blueprint." This structure seeks to cover conventional trade elements like tariffs and quotas but will also delve into matters like China's state-driven manufacturing subsidies, technology handovers, and safeguarding intellectual properties. Beyond

that, it will broach wider subjects, including cyber threats and amplifying U.S. corporate footprints in the Chinese domain. It's essential to underscore that the U.S.'s protective actions against its trade allies, especially China, hold both economic and geopolitical undertones. In the U.S. strategic playbook, China emerges as the principal rival in the coming years. Thus, various trade curbs on China, among other maneuvers, are perceived as strategic moves to curb China's rise to global supremacy.

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