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**America–China Trade War during the Trump Administration:
A Confrontation between Strategic Superpowers**

**Dissertation Submitted in Partial Fulfillment of the Requirements
for Master's Degree in Literature and Civilization**

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Academic Year: 2020/2021

Dedication

We dedicate this work to our parents, friends, teachers and colleagues, to those who have helped and supported us along the way, and most importantly, to the ones who will make use of it for the benefit of mankind.

Acknowledgements

First of all, all praise is due to Allah the Almighty, without His mercy, grace, help and guidance, this research could never be done. Our special gratitude is owed to our supervisor Dr. Tarek SAID for his continuous encouragement, guidance, support, insightful criticism and patience. We would like to acknowledge and express our gratefulness to all the teachers in the Department of Arts and English Language for their time, support and advice. Hence, we are pleased to thank all the examiners who spent some of their precious time to read, correct and criticize our work, which is not immune from mistakes and imperfections. Last but not least, our gratitude is also meant to every single person who-in a way or another – backed us up.

Abstract

Increasing economic power of the People's Republic of China in the course of the recent years alongside the United States' declining share within the global production, as well as international trade within the start of the 21st C, has resulted in a change within the world's geopolitical landscape and the springing up of the "Group of Two", which can simply be referred to as G2. In 2015, China emerged as the leader within commodity exports thereby becoming a principal player in global trade. As a result, U.S came up with policies that were aimed at slowing down China's drastic economic growth in the fear that it may overtake it and become the economic giant globally. It is in that line that the U.S has introduced protectionist policies. China was also compelled to come up with its counter policies in response to the American policies that targeted it. The present situation of the America-China trade relations is what is commonly termed as Cold Trade War. In this paper, we take a look at the causes of the Cold Trade War and the possible consequences. All in all, it will be illustrated that in every trade war, there are neither winners nor losers as the countries involved end up losing as it will be outlined in this paper.

Keywords: Economic Power, China, United States, International Trade, Geopolitical, Cold Trade War, Trade War

List of Abbreviations and Acronyms

5G : The Fifth Generation

BIS : Bureau of Industry and Security

BTC : Bitcoin

CBDC : Central Bank Digital Currency

COVID-19 : Corona Virus Disease 2019

EU : European Union

FBI : Federal Bureau of Investigations

FED : Foreign Exchange Department

FNOPS : Financial Operations

FOCAC :Forum on China-Africa Cooperation

G20 : Group of the Twenty Countries

GDP : Gross Domestic Product

IMF : International Monetary Fund

LNG : Liquefied Natural Gas

MCC : Millennium Challenge Corporation

NASQAD : The National Association of Securities Dealers Automated Quotations

NATO : North Atlantic Treaty Organization

PCA : Permanent Court of Arbitration

PEPFAR : President's Emergency Plan for AIDS Relief

PLA : People's Liberation Army

PRC : People's Republic of China

QE : Quantitative Easing

R&D : Research and development

RCEP : Regional Comprehensive Economic Partnership

SPR : Strategic Petroleum Reserve

SSE : Shanghai Stock Exchange

TNC : Transportation Network Companies

U.S : United States

UNCLOS : United Nation Convention of the Law of the Sea

USD : United States Dollar

USSR : Union of Soviet Socialist Republics

WHO : World Health Organization

WTO : World Trade Organization

ZTE : Zhong Xing Telecommunication Equipment

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General Introduction

General Introduction

1. Background of the Study

Increasing economic power of the People's Republic of China in the course of the recent years alongside the United States' declining share within the global production, as well as international trade within the start of the 21st C, has resulted in a change within the world's geopolitical landscape and the springing up of the "Group of Two", which can simply be referred to as G2. In 2015, China emerged as the leader within commodity exports thereby becoming a principal player in global trade. The absolute nominal GDP of China reached 14,092 million USD (having a share of around 16.1%) whereby it is followed by the United States (20,412 million USD with a 23.3% world's GDP) (Kapustina et al., 2020). Besides, the absolute GDP in terms of purchasing power parity happens to be higher in China (23,159 million USD) as compared to the United States 19,390 million (USD)

The working class tends to be steadily growing whereby in China 80 million Chinese citizens were classified under working class but it had been projected that the figure would hit 700 million in 2020, which is equivalent to almost half of the country's total population. China stands out as the largest exporter globally whereby its yearly export volume is estimated to be 2,263.33 million USD, whereas the U.S comes in second with annual exports of 1,546.72 million USD (Liu & Woo, 2018). In reference to evaluation carried out by certain Chinese scientists, the national economic power of their country had by 2014 surpassed the American one thus making China the low-cost manufacturing center worldwide in addition to transforming into an export-oriented global technology hub. In addition, empirical studies carried out through the utilization of econometric models indicate that the influence on the global economy by China has actually increased, even though U.S remains to be the global leader in all commodity, energy,

stock, and credit markets, thus enabling it to maintain its dominance within the global economy. In that regard, there happens to be no unified argument of the balance within the two economies' scale in the scientific literature.

This vision of China's absolute dominance within the global economy within the U.S has brought about conflict with the increasing imbalance within bilateral trade with it, increasing competitiveness of high-tech firms based within the People's Republic of China, in addition to increasing China's investments exports. In respect to the U.S officials, China seems to pursue unfair trade policies, taking advantage of the trade liberation, as well as World Trade Organization's benefits, while concurrently ensuring that its domestic market is well secured against foreign competition by offering subsidies and encouraging export by devaluing currency (Kapustina et al., 2020). Also, China is accused by the U.S of stealing not only scientific and technical knowledge but also technologies from the United States firms, thereby breaching the intellectual property rights, in addition to contravening the environmental protection requirements. In this research paper, the focus is directed on the identification of the causes of the trade war and its impact on China, U.S, and the general economy in general.

2. Purpose of the Study

The purpose of this research proposal will be to review the causes of the America-China war, establish the projected outcomes and find out which country is set to emerge as the winner.

3. Problem Statement

The emerging America-China Trade war has turned out to be an issue of interest to economists, as well as other parties within the world of commerce. Consequently, a wide range of both qualitative together with quantitative research studies have been conducting with the objective of establishing the causes of the America-China war, establish the projected outcomes

and find out which country is set to emerge as the winner. Past studies on trade wars indicate that no country can emerge as a winner hence there is the need for the affected countries to resolve the matter amicably. Based on the said facts, it has turned out as necessary to undertake a study with the objective of outlining the consequences of the America-China war, not only on the involved countries but also the global economy.

4. Research Questions

Question 1: What are the causes of the America-China trade war?

Question 2: What will be the consequences of the America-China trade war and which of the two countries is likely to emerge as the winner?

5. Research Hypotheses

H₀: The America-china trade war is set to have more adverse effects on China as compared to America

H_A: The America-china trade war is set to have more adverse effects on America as compared to China.

6. Literature Review

Savinov et al., 2019 assert that once in the course of attempting to actualize his slogan “make America great again” former U.S President D. Trump spearheaded the direct breaching of the Internal law, together with multilateral agreements, founded exclusively on national interests. The United States’ protectionist trade policy is considered to be a national egoism policy within the precincts of the economic patriotism concept. It has also been likened to economic terrorism due to the fact that the partner countries’ economic along with political interests, as well as the informal unions’ interests have been neglected. According to Zhao (2019), it has emerged that the U.S has purposely abandoned the idea, as well as the concept of free trade so as to safeguard its

global leader statuses which can lead to the spread of de-globalization procedures within the global economy, through the formation of regional mega-unions, putting into consideration that no country around the globe can withstand the United States' protectionism without the assistance of economic allies. America has no interest in China's modernization, even though the profound interdependence still contributes to the emergence of the bilateral relationship.

Kapustina et al. (2020), asserts that in respect to the global economy history, no party emerges as the winner in trade wars. The two sides incur losses, although the United States has a known record of sealing deals on how to resolve trade differences and compelling other nations to step back. The People's Republic of China has also indicated that it is ready to compromise, lower the imbalance within bilateral trade to 200 billion USD and have its domestic market liberalized for United States firms. Nonetheless, the requirements together with sanctions that US has imposed have a vibrant effect on China's industrial policy and turn out to be a threat to the "Made in China" plan of 2025. The latter makes the implication that China has to secure dominance within ten high-tech industries (artificial intelligence, robotics, etc). America believes that China's initial successes within the implementation of the said plan can be attributed to the utilization of American technologies; hence it will attempt to limit access to them by the Chinese industries. Even though there is no winner in a trade war, in all trade wars there are three losers: the affected trade partners along with the decline in trade globally, resulting in a slowdown within the international economic growth. In Carnegie (2018), the issues that led to the escalation America-China trade war during the previous Trump administration have been outlined.

7. Methodology

For purposes of identifying the causes and predicting the outcomes of the mentioned trade war, a systematic review was undertaken. A detailed review of a wide range of articles that feature

information on the topic under study will be carried out in order to obtain vital information concerning the causes of the America-China trade war and the impending consequences not only on the economies of the two countries but also the global economy. Therefore, the research work will involve the undertaking of a systematic quality review. Typically, a systematic review involves the identification of the articles that feature the relevant and updated information on issues related to the research study and outlining the study findings. To draw a conclusion, the findings of the diverse studies are combined into one to make generalizations on the U.S-China trade war and its implications.

8. Causes of the Trade War

The majority of researchers assert that the trade war formally started on March 23, 2018, once President Trump signed a Presidential Memorandum that targeted China's economic aggression, in addition to introducing steel and aluminum tariffs (Kwan, 2020). Nevertheless, the tensions within US and China's economic relations had emerged somehow earlier. They actually emerged once the WTO in 2017 granted China a market economy status, a move that was greatly criticized by U.S due to the fact that it restricted opportunities for protectionism against Chinese firms. Consequently, U.S refused recognizing China as one of the market economies, which was the premier step towards the differences between the two countries.

In December 2017, Trump's confrontational policy was introduced. It introduced limitations on Chinese investments with U.S technology, augmented export control, as well as expanded the dual-use products list which could not be exported to China (Kapustina et al., 2020). Also, the entity list was compiled which listed the firms that the U.S companies were barred from entering into deals with and they included the ZTE Corporation that was had been accused of breaching the U.S sanctions against Iran.

Sometime after, the two nations started exchanging threats about increasing tariffs. The Chinese firms reportedly halted the purchase of American agricultural products. China was accused by the U.S of manipulating currency with the objective of gaining a competitive edge and partially neutralizing the impacts of the tariffs. In response, China filed a case against U.S within the WTO putting into question the reasons behind the imposing of the tariffs. Ignoring the G20 recommendations, America introduced another tariffs list on Chinese imports worth 125 billion USD (Kwan, 2020). In return, China imposed a 5% tariff within U.S crude oil along with other products worth 75 billion USD. The two nations excluded certain goods given that it had turned out that their businesses were incurring unnecessary costs.

Their differences increased once America introduced its protectionist policy that targeted not only China but other countries from exploiting the U.S interests. One of the objectives of the provisions of the protectionist policy was to support domestic producers by restricting foreign competition to lower overall consumption within the U.S and increase the steel and aluminum products manufacturing to which high tariffs apply (Kapustina et al., 2020). Typically, the trade war is aimed at impeding the ballooning economy.

9. The Outcomes of the Trade War

The tension within US-China trade relations is considered to be a threat to the global economy in general but not just the two country's economies. Due to the U.S-China trade restrictions, it is anticipated that the global growth is set to drop by at least 0.5%. on the other hand, in the event U.S imports from China are reduced by half due to the high import tariffs, China will incur a direct loss on its GDP of at minimum 0.43% (Li et al., 2018). Putting indirect effects into consideration, the trade war is expected to lead to a decrease of 1.12% of the China's GDP. If

an increase in tariffs is imposed on each of the China exports to America, it is projected that the GD losses are set to reach 4%.

Nonetheless, in accordance to the views of some experts, China's response to the trade war under review has the potential of having more devastating effects on the United States' economy as compared to China. American firms are set to partly lose their China-based consumers due to nationalistic appeals to shun U.S manufactured goods such as KFC, McDonald's, and Apple products. Besides, the domestic demand for Chinese products banned by the U.S, for instance, Huawei and ZTE products is relatively increasing (Liu & Woo, 2018). Sanitations against ZTE are considered to have put the firm within a delicate position, putting into consideration that a substantial quantity of chips used in the production of telecommunication equipment used to be sourced from America and the Chinese along with Korean suppliers cannot supply the needed amount. This is set to have an impact on the consumers, based on their personal preferences (Li et al., 2018). For instance, the Americans that prefer the Chinese assembled tech products are likely to feel conned sooner as compared to the ones that depend on American manufactured products because the important products are set to be costly due to the imposed tariffs. In fact, a recent research finding indicates that imposition of tariffs on imports worth 200 billion USD would cost every American family, on average 127 USD annually.

10. Conclusion

Trade wars between countries result in changes within the international trade arena, and the slowing down of financial markets. The current America-U.S war has the potential of splitting countries into two warring blocks, with one faction supporting China and the other one U.S, resulting in the establishment of mega-alliances of economies, in addition to regional currency zones. The U.S simply aims at slowing down China's drastic economic growth in the

fear that it may overtake it and become the economic giant globally. It is in that line that the U.S has introduced protectionist policies. The present situation of the America-China trade relations is what is commonly termed as Cold Trade War. All in all, given that the two countries are set to lose as earlier outlined, they will see the need to resolve their differences amicably.

Chapter One: Conceptualizing the Term

“Trade War”

Chapter One: Conceptualizing the Term “Trade War”

Introduction

Since the economy has been the lifeblood of nations throughout history, trade wars can create sharp tensions in international relations. Countries have realized that they need to cooperate in the areas of trade and the economy. After the Second World War, global economic connections became more flexible, trade barriers were removed, and global commerce became much smoother.⁽¹⁾

1. Definition of “Trade War”

A trade war is a situation in which countries restrict each other’s trade by imposing tariffs or quotas on imports. The latest example of a trade war is the one currently going on between the United States and China. China, with its large manufacturing base, has captured world markets. China’s growth is viewed as a threat to the United States’ supremacy in world trade. In this paper, we focus on trade history and explore the trade statistics of China and the United States, the factors that led to the trade war, the journey of China in the World Trade Organization (WTO), and the United States’ appeal to amend WTO rules to ensure fair play. We also outline the outcome of the current war in terms of trade diversion, trade beneficiaries, the reaction of NASDAQ (the National Association of Securities Dealers Automated Quotations) and the Shanghai Stock Exchange (SSE), and the impact of the war on consumers.⁽²⁾

BusinessDictionary defines a trade war as an economic conflict resulting from extreme protectionism, in which a state raises or creates tariffs or other trade barriers against another state in response to the trade barriers the other state created.⁽³⁾ If tariffs are the exclusive weapon to win the war, then such conflicts are known as customs wars, toll wars, or tariff wars; the latter state

may also increase tariffs. Increased protection causes both nations’ output compositions to move toward a position of autarky.⁽⁴⁾

Trade wars can be escalated to full conflict between states, as evidenced in the Massacre of the Bandanese after alleged violations of a new treaty. The First Anglo-Dutch War stemmed from disputes over trade; the war began with English attacks on Dutch merchant shipping but expanded to vast fleet actions. The Second Anglo-Dutch War was fought for control over the seas and trade routes, with England trying to end the Dutch domination of world trade during a period of intense European commercial rivalry. The Fourth Anglo-Dutch War was fought over British and Dutch disagreements on the legality and conduct of Dutch trade with Britain’s enemies in that war. The Shimonoseki Campaign stemmed from unrest over the shogunate’s open-door policy to foreign trade. The First Opium War, which started after the Qing government blockaded its ports, confiscated opium contraband, and confined British traders, resulted in the dispatch of the British Navy to China and its engagement with the Chinese Navy in the Battle of Kowloon. The First Opium War eventually led to the establishment of the British colony of Hong Kong, and the Second Opium War, which stemmed from another trade war with the same underlying motivations, expanded the British possessions on the island.⁽⁵⁾

2. Development of the America-China Trade War

US-China relations are regarded the most important relations in the 21st century because the two countries are the most powerful economic nations in existence in recent decades. China’s economy has rapidly developed in various sectors, whereas the US economy has witnessed a considerable decline, causing both countries to see each other as opponents or even enemies despite their strategic cooperative relations.

Economic competition started gradually increasing between the two countries from the 1980s onward, particularly after the reform and opening up of China’s economy. China witnessed unprecedented economic growth at this time. In 1985, the first commercial deficit emerged between the United States and China on the level of trade balance, which worked mainly in favor of the latter. A number of recent studies indicated that the United States is the number one economic power in the world, whereas China is number two. However, the International Monetary Fund has stated that China will possibly become the number one power during 2020 and 2030⁶⁾.

The US-China trade war visibly ramped up when Donald Trump became the US president in December 2016 and sought to fulfill his election pledge to “make America great again.” He implemented new policies of protectionism against Chinese companies and gave tax incentives to US companies that run abroad in aim to refresh their investments. These protectionist policies, however, led to massive increases in tariffs, creating profound trade tensions. China, in retaliation, imposed analogous tariffs on US exports. This “trade war” has led the global economic situation to a dangerous place. It has slowed down global value chains and disrupted financial markets. The risks this war poses extend beyond the United States and China. For instance, taking into account the tariffs of the imported goods to their original prices which systematically augment their costs in the local markets; inflation; and augmentation of the interest rate⁽⁷⁾ which leads the central bank to lighten slowdown growth reliabilities in the countries participating in this confrontation. Additionally, subsidiary outcomes can affect countries not participating directly in the global war; for instance, the US-China trade war has influenced trade flows and straight foreign investments. These subsidiary outcomes and the preventive policies required to overcome them mainly depend on the concerned countries’ economic structure and on how much it is integrated into the global economic structure. Thus, economic outcomes differ from one country to another. Trade wars

seriously affect some countries; other countries, which have closed economies, are less affected. A number of countries can even benefit from a trade war by shifting their trade exchanges.

The United States’ vision of absolute dominance of the global economy has come into conflict with its growing imbalance in bilateral trade with China, the increasing competitiveness of high-tech companies based in China, and the increase in China’s investment exports. US officials state that China is pursuing unfair trade policies, exploiting the benefits of trade liberalization and WTO membership, and keeping its domestic market safeguarded against foreign competition by providing subsidies and facilitating exports through currency devaluations. The United States has accused China of stealing scientific and technical knowledge and technologies from American companies, violating intellectual property rights and neglecting environmental protection requirements.

At the same time, researchers have pointed out that in trying to “make America great again,” President Trump caused the United States to directly violate international law and multilateral agreements in the single-minded pursuit of national interests. The protectionist trade policy of the United States has been referred to as the policy of national egoism within the framework of the economic patriotism concept⁽⁸⁾, and even economic terrorism⁽⁹⁾. The economic interests of the country’s partners in economic and political organizations and informal unions have been neglected. It has become obvious that the United States has abandoned the concept of free trade to preserve its status as global leader. This has encouraged de-globalization processes in the global economy and led to the formation of regional mega-unions because no country can withstand American protectionism without economic allies. The United States is not interested in China’s modernization, but their profound interdependence continues to contribute to the development of their bilateral relations ⁽¹⁰⁾.

March 23, 2018, is the formal date on which the United States’ trade war with China began. On this day, Trump signed the “Presidential Memorandum Targeting China’s Economic Aggression” and imposed tariffs on steel and aluminum. However, tensions in the economic relations of the two countries long predated these tariffs. The WTO granted China the status of a market economy in 2017, which provoked criticism from the United States because this status limited its opportunities for protectionism against companies from China. The United States refused to recognize China as a market economy, taking the first step toward a confrontation between the “Group of Two.” Trump’s confrontational policy was reflected in the National Security Strategy the United States adopted in December 2017. The strategy introduced restrictions on China’s investments in American technology, tightened export controls, and expanded the list of dual-use products that could not be shipped to China. The “Entity List” was introduced, banning US companies from doing business with enlisted companies such as the ZTE Corporation, which was accused of violating US sanctions against Iran⁽¹¹⁾.

Li et al. (2018)⁽¹²⁾ estimated the economic outcomes of a global trade war between the United States and China, which they argued would profoundly affect both countries’ and even the world’s gross domestic product (GDP). Li et al. concluded that both sides would suffer massive losses, but China would lose more. Increasing nontariff barriers would increase both sides’ economic losses and negatively affect the rest of the world. Mesquita (2019)⁽¹³⁾ studied the outcomes on the world’s economic growth, especially the euro region’s and Latin developing countries’ economic growth, of US tariffs on Chinese exports of 25%. China, in retaliation, imposed 50% tariffs on American exports. The author concluded that the current tensions amid the trade partners would lower the world’s GDP by 0.7% to 2.8% in 2019, and by 0.8% in Europe. He further observed that the trade war’s outcomes would not be the same in developing countries

in Latin America. Some of these countries, such as Argentina, 60% of whose total exports consist of soy, would benefit. This percentage would likely increase after China imposed tariffs on US agricultural products. Mexico would also benefit from the trade war because it competes with China in the US local market. This market accommodates 75% of Chinese exports. Brazil and Columbia would economically suffer from the trade war, but likely not as much as the other countries of Latin America, because their economies are relatively closed and their exports and imports to GDP are 24% and 28%, in comparison to 54% in G20 countries⁽¹⁴⁾.

Amiti et al. (2018), explored the outcomes of implementing tariffs in the United States in 2018 using the standardized economy approach⁽¹⁵⁾. Their results indicated that tariff costs have been directly transferred to imported goods' prices; this was accompanied by a GDP decline of an estimated 1.4 billion USD by the end of 2018. Similar results were achieved in the United States' trade peer countries, clearly indicating that the trade war's outcomes are widespread on both sides.

Although so far, US-China trade war is on the edge. The United States boycotted Huawei and implemented the Entity List, and the FED cut interest rates, seemingly preparing the country for escalation. China fought back with an “Unreliable Entity List,” targeting President Trump's stronghold, the agricultural-producing states. It raised tariffs on wine and meat products from 10% to 25%. It also used rare earth, an important source material for high-tech industries, as another countermeasure. Restrictions on rare earth exports provided space for further projections of the outcomes of a trade war. Most experts estimated that it was unlikely President Trump and President Xi would sign a trade agreement during their meeting at the G20 Summit in late June. Nevertheless, we argue that there is still a chance that the countries will sign a trade agreement in the future. A trade war carries disadvantages for both sides, and fighting a war of attrition would be highly risky. A trade agreement would be a graceful way to reduce tensions.

To the United States, its downside is that President Trump faced presidential elections. In the course of a trade war, if stock and housing markets collapse, the impact on agriculture-producing states’ products is too major, or a tariff-induced inflation begins, American citizens will suffer. For China, its weaknesses are the internal supply side reforms, and the danger of being besieged by its enemies. A crucial question is whether China can withstand its economic condition. Considering the circumstances, a trade agreement may be around the corner.

How long will the trade war last? The longer it lasts, the worse the situation will become for both countries’ economies. Enterprises will find it difficult to operate and pay back their debts. Housing prices will drop, and people’s ability to pay off mortgages will decrease, negatively affecting the financial sector. In these circumstances, a global financial crisis may occur. The most likely epicenter for this crisis is China, with the United States being the second most likely. The US stock market may drop by 30–40%, leading to a tsunami of the kind that took down Lehman Brothers. However, the country has policy tools, such as cutting interest rates and quantitative easing to cope with this situation.

As for China, if the trade war lasts for more than one year, China’s state-owned enterprises will witness a significant rise in debt and its banking sector’s reserve ratio will drop sharply. Housing prices will also decline by 20–30%. Currently, Chinese state-owned enterprises’ debt is around 50–60% of China’s GDP, but if the central government does not support these enterprises, the unemployment rate will rise considerably and negatively affect the political situation. In terms of liquidity, China’s required deposit reserve ratio is 14–15%, and it can afford to downgrade the ratio to 5–6%. Further, China has various tools, such as tax reduction, subsidies, and issuing of public debt, to tackle the above problems in the short run.

Although the Bank for International Settlements has continuously warned that the Chinese economy is in for a huge financial storm, in the short run, China has a solid economic foundation (massive foreign reserves of 3 trillion USD), a closely managed economy (centralization and relatively flexible governing approaches), and an abundance of economic tools (downgrade of the required deposit reserve ratio, subsidies, tax reductions, and issuing of public debt). It can withstand the trade war’s effects for now. A Chinese financial crisis, let alone one that affects the whole world, is unlikely in the short run.

The US-China trade war is a Thucydides Trap, a confrontation between a major ruling power and a major rising power. Even if the United States and China sign a trade agreement, they will have conflicts over technology, money, and global economic leadership in the future.

Currently in the United States, not only the Republican Party, the Democratic Party, and the American business sector but also ordinary citizens mostly consider China a strategic competitor. As a result, the US-China conflict is predicted to last for 10 or 20 years. Nevertheless, if the two countries are able to sign a trade agreement within half a year or one year, then the chances of a financial crisis will be significantly lower⁽¹⁶⁾. If an agreement cannot be reached and the trade war lasts for over a year, then it may expand from the real economy to the financial sector, sparking a financial crisis. Hence, we must pay close attention to the following factors: the potential for an agreement, price drops in the US stock market, changes in Chinese state-owned enterprises’ debt, the amount of liquidity, and the speed in the decrease of housing prices.

We need to learn from historical lessons and avoid conflicts as much as possible. Corporations and individuals should focus on core competitiveness instead of using excessive financial leverage. Meanwhile, banks should enhance their capital adequacy ratio and raise nonperforming loans’ coverage ratio to avoid being affected by such loans and by the lack of

liquidity because of the trade war. Only by doing so can small countries such as Taiwan withstand adversity and stay out of the possible financial crisis.

3. History of the US-China Trade War (2000–present)

The trade war has caused economic pain on both sides and led to the diversion of trade from both China and the United States. As Heather Long stated in the *Washington Post*, “U.S. economic growth slowed, business investment froze, and companies didn’t hire as many people. Across the nation, a lot of farmers went bankrupt, and the manufacturing and freight transportation sectors have hit lows not seen since the last recession. Trump’s actions amounted to one of the largest tax increases in years.”⁽¹⁸⁾ (pp. 23 & 24)

3.1 Normalized Trade Relations

President Clinton signed the US-China Relations Act of 2000 in October, granting Beijing permanent normal trade relations with the United States and paving the way for China to join the WTO in 2001. Between 1980 and 2004, US-China trade rose from \$5 billion to \$231 billion. In 2006, China surpassed Mexico as the United States’ second-biggest trade partner after Canada.

3.2 US-Sino Spy Plane Standoff

In April 2001, a US reconnaissance plane collided with a Chinese fighter and made an emergency landing on Chinese territory. Authorities in China’s Hainan Island detained the 24-member US crew. After 12 days and a tense standoff, the authorities released the crew, and President George W. Bush expressed regret over the death of a Chinese pilot and the landing of the US plane.

3.3 “Responsible Stakeholder”

In a September 2005 speech, Deputy Secretary of State Robert B. Zoellick initiated a strategic dialogue with China. Recognizing Beijing as an emerging power, he called on China to serve as a “responsible stakeholder” and use its influence to draw nations such as Sudan, North Korea, and Iran into the international system. That same year, North Korea walked away from the Six-Party Talks aimed at curbing Pyongyang’s nuclear ambitions. After North Korea conducted its first nuclear test in October 2006, China served as a mediator to bring Pyongyang back to the negotiating table.

3.4 China Increases its Military Spending

In March 2007, China announced an 18% budget increase in defense spending for 2007, totaling more than \$45 billion. China’s increases in military expenditures averaged 15% a year from 1990 to 2005. During a 2007 tour of Asia, US Vice President Dick Cheney stated that China’s military buildup was “not consistent” with the country’s stated goal of a “peaceful rise.” China countered that it was increasing spending to provide better training and higher salaries for its soldiers, to “protect national security and territorial integrity.”

3.5 China Becomes Largest US Foreign Creditor

In September 2008, China surpassed Japan to become the largest holder of US debt—or treasuries—at around \$600 billion. The growing interdependence between the US and Chinese economies became evident as a financial crisis threatened the global economy, fueling concerns over US-China economic imbalances.

3.6 China Becomes World’s Second-Largest Economy

China surpassed Japan to become the world’s second-largest economy after it was valued at \$1.33 trillion for the second quarter of 2010, slightly above Japan’s \$1.28 trillion

for that year. China is on track to overtake the United States as the world’s number one economy by 2027, according to Goldman Sachs’s chief economist Jim O’Neill. At the start of 2011, China reported a total GDP of \$5.88 trillion for 2010 compared to Japan’s \$5.47 trillion.

3.7 US “Pivots” Toward Asia

In an essay for *Foreign Policy*, US Secretary of State Hillary Clinton outlined a US “pivot” to Asia. Clinton’s call for “increased investment—diplomatic, economic, strategic, and otherwise—in the Asia-Pacific region” was seen as a move to counter China’s growing clout. That month, at the Asia-Pacific Economic Cooperation summit, US President Barack Obama announced that the United States and eight other nations had reached an agreement on the Trans-Pacific Partnership—a multinational free trade agreement. Obama later announced plans to deploy 2,500 marines in Australia, prompting criticism from Beijing.

3.8 Rising Trade Tensions

The US trade deficit with China rose from \$273.1 billion in 2010 to an all-time high of \$295.5 billion in 2011. The increase accounted for three-quarters of the growth in the US trade deficit for 2011. In March, the United States, the European Union, and Japan filed a “request for consultations” with China at the WTO over its restrictions on exporting rare earth metals. The United States and its allies contended that China’s quota violated international trade norms, forcing multinational firms that used the metals to relocate to China. China called the move “rash and unfair” while vowing to defend its rights in trade disputes.

3.9 Dissident Flees to US Embassy

Blind Chinese dissident Chen Guangcheng escaped house arrest in Shandong province on April 22 and fled to the US embassy in Beijing. US diplomats negotiated an agreement with Chinese officials to allow Chen to stay in China and study law in a city close to the capital. However, after Chen moved to Beijing, he changed his mind and asked to take shelter in the United States. This development threatened to undermine US-China diplomatic ties, but both sides averted a crisis by allowing Chen to visit the United States as a student rather than as an asylum seeker.

3.10 China’s New Leadership

In November 2012, the 18th National Party Congress concluded with the most significant leadership turnover in decades as about 70% of the members of the country’s major leadership bodies—the Politburo Standing Committee, the Central Military Commission, and the State Council—were replaced. Li Keqiang assumed the role of premier, while Xi Jinping replaced Hu Jintao as president, Communist Party general secretary, and chairman of the Central Military Commission. Xi delivered a series of speeches on the “rejuvenation” of China.

3.11 Sunnylands Summit

On June 7–8, 2013, President Obama hosted President Xi for a “shirt-sleeves summit” at the Sunnylands Estate in California in a bid to build a personal rapport with his counterpart and ease tense US-China relations. The leaders pledged to cooperate more effectively on pressing bilateral, regional, and global issues, including climate change and North Korea.

Obama and Xi also vowed to establish a “new model” of relations, a nod to Xi’s concept of establishing a “new type of great power relations” for the United States and China.

3.12 US Indicts Chinese Nationals

A US court indicted five Chinese hackers, allegedly with ties to China’s People’s Liberation Army, on charges of stealing trade technology from US companies. In response, Beijing suspended its cooperation in the US-China cybersecurity working group. In June 2015, US authorities signaled that there was evidence that Chinese hackers were behind the major online breach of the Office of Personnel Management and the theft of data from 22 million current and former federal employees.

3.13 Joint Climate Announcement

On the sidelines of the 2014 Asia-Pacific Economic Cooperation summit, President Obama and President Xi issued a joint statement on climate change, pledging to reduce carbon emissions. Obama set a more ambitious target for US emissions cutbacks, and Xi made China’s first promise to curb carbon emissions’ growth by 2030. These commitments by the world’s top polluters stirred hopes among some experts that they would boost momentum for global negotiations ahead of the 2015 UN-led Climate Change Conference in Paris.

3.14 US Warns China Over South China Sea

On May 30, 2015, at the 14th annual Shangri-La Dialogue on Asian security, US Secretary of Defense Ashton Carter called on China to halt its controversial land reclamation efforts in the South China Sea, stating that the United States opposed “any further militarization” of the disputed territory. Ahead of the conference, US officials stated that images from US naval surveillance

provided evidence that China was placing military equipment on a chain of artificial islands despite Beijing’s claims that the construction was mainly for civilian purposes.

3.15 Trump Affirms One China Policy After Raising Doubts

On February 9, 2017, US President Donald J. Trump said he would honor the One China policy in a call with President Xi. After winning the presidential election, Trump broke with established practice by speaking on the telephone with Taiwanese President Tsai Ing-wen and questioning the United States’ commitment to its One China policy. Washington’s policy for four decades has recognized that there is only one China. Under this policy, the United States has maintained formal ties with the People’s Republic of China but also maintained unofficial ties with Taiwan, including the provision of defense aid. Secretary of State Rex Tillerson, visiting Beijing in March, described the US-China relationship as one “built on nonconfrontation, no conflict, mutual respect, and always searching for win-win solutions.”

3.16 Trump Hosts Xi at Mar-a-Lago

In April 2017, President Trump welcomed China’s Xi for a two-day summit at the Mar-a-Lago estate in Florida, where bilateral trade and North Korea topped the agenda. Afterward, Trump touted “tremendous progress” in the US-China relationship and Xi cited a deepened understanding and greater trust building. In mid-May, US Commerce Secretary Wilbur Ross unveiled a 10-part agreement between Beijing and Washington to expand trade of products and services such as beef, poultry, and electronic payments. Ross described the bilateral relationship as “hitting a new high,” though the countries did not address more contentious trade issues such as aluminum, car parts, and steel.

3.17 Trump Tariffs Target China

On March 22, 2018, The Trump administration announced sweeping tariffs on Chinese imports, worth at least \$50 billion, in response to what the White House alleged was Chinese theft of US technology and intellectual property. Coming on the heels of tariffs on steel and aluminum imports, the measures targeted goods such as clothing, shoes, and electronics and restricted some Chinese investment in the United States. China imposed retaliatory measures in early April on a range of US products, stoking concerns of a trade war between the world’s largest economies. The move marked a hardening of President Trump’s approach to China after high-profile summits with President Xi in April and November 2017.

3.18 US-China Trade War Escalates

The Trump administration imposed fresh tariffs totaling \$34 billion worth of Chinese goods on July 6, 2018. More than 800 Chinese products in the industrial and transport sectors, as well as goods such as televisions and medical devices, faced a 25% import tax. China retaliated with its own tariffs on more than 500 US products. The reprisal, also valued around \$34 billion, targeted commodities such as beef, dairy, seafood, and soybeans. President Trump and members of his administration believed that China was “ripping off” the United States, taking advantage of free trade rules to the detriment of US firms operating in China. Beijing criticized the Trump administration’s moves as “trade bullying” and cautioned that tariffs could trigger global market unrest.

3.19 Pence Speech Signals Hard-Line Approach

On October 4, 2018, US Vice President Mike Pence delivered a speech marking the clearest articulation yet of the Trump administration’s policy toward China and a significant hardening of

the United States’ position. Pence stated the United States would prioritize competition over cooperation by using tariffs to combat “economic aggression.” He also condemned what he called growing Chinese military aggression, especially in the South China Sea, criticized increased censorship and religious persecution by the Chinese government, and accused China of stealing American intellectual property and interfering in US elections. China’s Ministry of Foreign Affairs denounced Pence’s speech as “groundless accusations” and warned that such actions could harm US-China ties.

3.20 Canada Arrests Huawei Executive

Meng Wanzhou, the chief financial officer of Chinese telecom and electronics company Huawei, was arrested on December 1, 2018, in Canada at the United States’ request. The US Justice Department alleged Huawei and Meng violated trade sanctions against Iran and committed fraud and requested her extradition. In apparent retaliation, China detained two Canadian citizens, who Chinese officials accused of undermining China’s national security. Calling Meng’s arrest a “serious political incident,” Chinese officials demanded her immediate release. US officials emphasized an unbiased and apolitical legal process, but Trump implied that Meng’s charges could be used as leverage in the ongoing US-China trade talks.

3.21 Huawei Sues the United States

On March 6, 2019, amid legal proceedings against Meng, Huawei sued the United States in a separate lawsuit for banning US federal agencies from using the telecom giant’s equipment. In a battle with Beijing for technological supremacy, the Trump administration launched an aggressive campaign warning other countries not to use Huawei equipment to build 5G networks and claiming that the Chinese government could use the company to conduct spying.

3.22 Trade War Intensifies

On May 10, 2019, after trade talks broke down, the Trump administration raised tariffs from 10 to 25% on \$200 billion worth of Chinese goods. China retaliated by announcing plans to increase tariffs on \$60 billion worth of American goods. President Trump stated he believed the high costs the tariffs imposed would force China to make a deal favorable to the United States, whereas China’s Foreign Ministry stated the United States had “extravagant expectations.” Days later, the Trump administration banned US companies from using foreign-made telecommunications equipment that could threaten national security, a move believed to target Huawei. The US Commerce Department also added Huawei to its foreign entity blacklist.

3.23 US Labels China a Currency Manipulator

On August 5, 2019, after China’s central bank let the yuan weaken significantly, the Trump administration designated China a currency manipulator. The designation, applied to China for the first time since 1994, was mainly symbolic, but it came less than a week after Trump announced higher tariffs on \$300 billion worth of goods. That meant everything the United States imported from China now faced taxes. Beijing warned that the designation would “trigger financial market turmoil.”

3.24 Trump Signs Bill Supporting Hong Kong Protesters

On November 27, 2019, President Trump signed the Hong Kong Human Rights and Democracy Act after it passed in the US Congress with overwhelming majorities. The legislation authorized the United States to sanction individuals responsible for human rights abuses in Hong

Kong. It also required US officials to evaluate every year whether Hong Kong enjoyed a “high degree of autonomy” from Beijing. Many of the pro-democracy protesters, who had been demonstrating since June, celebrated the bill’s passage. Chinese officials condemned the move, imposed sanctions on several US-based organizations, and suspended US warship visits to Hong Kong.

3.25 “Phase One” Trade Deal Signed

On January 15, 2020, President Trump and Chinese vice Premier Liu He signed the Phase One Agreement, a breakthrough in the nearly two-year trade war between the world’s two largest economies. The deal relaxed some US tariffs on Chinese imports and committed China to buying an additional \$200 billion worth of American goods, including agricultural products and cars, over two years. China also pledged to enforce intellectual property protections. However, the agreement maintained most tariffs and did not mention the Chinese government’s extensive subsidies, a longtime concern of the United States. Trump stated these could be tackled in a future deal. Days before the signing, the United States dropped its designation of China as a currency manipulator.

3.26 Tensions Soar amid Coronavirus Pandemic

On January 31, 2020, the Trump administration barred all non-US citizens who had recently visited mainland China from entering the United States amid an outbreak of a new coronavirus that was first reported in the Chinese city of Wuhan. By March, the World Health Organization (WHO) had designated the outbreak a pandemic after it spread to more than 100 countries. Leading officials in both China and the United States blamed the other side for the pandemic. A Chinese Foreign Ministry spokesperson claimed, without evidence that the US military brought the virus to China, whereas President Trump made repeated references to the

“Chinese virus,” which he claimed spread because of the Chinese government’s failures. In April 2020, top officials in both countries changed their tune by highlighting areas for cooperation amid the crisis. Nevertheless, Trump faulted the WHO for being biased toward China and halted US funding to the organization.

3.27 China Expels American Journalists

On March 18, 2020, the Chinese government announced it would expel at least thirteen journalists from three US newspapers—the *New York Times*, *Wall Street Journal*, and *Washington Post*—whose press credentials were set to expire in 2020. Beijing also demanded that these outlets, as well as *TIME* and *Voice of America*, share information with the government about their operations in China. The Chinese Foreign Ministry stated the moves were in response to the US government’s decision earlier in the year to limit the number of Chinese journalists from five state-run media outlets in the United States to 100, down from 160, and designate those outlets as foreign missions.

3.28 Trump Ends Hong Kong’s Special Status

Two weeks after Beijing passed a new national security law for Hong Kong, President Trump signed an executive order ending the city’s preferential trade status with the United States on July 14, 2020. He also signed legislation to sanction officials and businesses that undermined Hong Kong’s freedoms and autonomy. Chinese officials threatened to impose retaliatory sanctions on US individuals and entities. They denounced what they call US interference in China’s internal affairs, including Washington’s announcement a day earlier declaring most of Beijing’s claims in the South China Sea illegal.

3.29 US, China Close Consulates in Diplomatic Escalation

On July 22, 2020, the United States ordered China to close its consulate in Houston, Texas, alleging that it was a hub of espionage and intellectual property theft. China condemned the order and retaliated by closing the US consulate in Chengdu. In the same week, Washington indicted two Chinese hackers for allegedly stealing coronavirus vaccine research and sanctioned 11 Chinese companies for their reported role in human rights abuses in Xinjiang. Meanwhile, Chinese Foreign Minister Wang Yi blamed the United States for tensions.

3.30 Pompeo Claims Engagement with China Has Failed

On July 23, 2020, US Secretary of State Mike Pompeo delivered a speech, titled “Communist China and the Free World’s Future,” signaling a profound shift in US policy. He declared that the era of engagement with the Chinese Communist Party was over, condemning its unfair trade practices, intellectual property theft, human rights abuses in Xinjiang and Hong Kong, and aggressive moves in the East and South China Seas. He called on Chinese citizens and democracies worldwide to press Beijing to change its behavior and respect the rules-based international order.

3.31 Trump Ramps up Pressure as Transition Looms

President Trump attempted to cement his legacy of being tough on China during his final weeks in office. Director of National Intelligence John Ratcliffe called China “the greatest threat to America today,” whereas the Commerce Department added dozens of Chinese companies, including the country’s biggest chipmaker, Semiconductor Manufacturing International Corporation, to its trade blacklist. The State Department tightened visa rules for the around 90 million members of the Chinese Communist Party. It also sanctioned more Chinese officials, including 14 members of China’s legislative body, over abuses in Hong Kong, Xinjiang, and

elsewhere. Additionally, the White House banned US investments in Chinese companies it stated had ties to the People’s Liberation Army. Chinese officials vowed retaliation against these and other actions the Trump administration took.

3.32 US Designates China’s Abuses of Uyghurs as Genocide

On Trump’s last day in office, Pompeo declared that China was committing crimes against humanity and genocide against Uyghurs, a Muslim ethnic group primarily from China’s Xinjiang region. The United States was the first country to apply those terms to abuses the Chinese government had committed over the past few years, including the arbitrary detention of more than one million people in Xinjiang, forced sterilizations, and a crackdown on religious freedom. President Joe Biden used the term “genocide” while campaigning and raised concerns about the abuses during his first call as president with Xi. Biden’s secretary of state, Antony Blinken, also affirmed Pompeo’s declaration. The Chinese government denied that genocide was taking place. After Trump’s term ended, Beijing imposes sanctions on 28 of his administration’s former officials, including Pompeo, for what the Chinese Foreign Ministry called “crazy actions” that “seriously disrupted US-China relations.

4. Conclusion

Larisa, L’udmila, Yakov and Andrei⁽¹⁷⁾ (2020) in their studies about US-China trade war outcomes, stated that this could be the greatest trade war in economic history and could result in a change in the international trade architecture and the slowdown of financial markets. The world’s countries can be divided into two blocks supporting the United States or China and forming mega-alliances of their economies as well as regional currency zones. Asia’s role in the globalization process and the development of global supply chains is likely to be strengthened. The United States

will strive to weaken its main competitor and maintain its dominance in the global arena, particularly in the areas of economy, politics, and national security.

The current foreign trade policy of the United States aims to slow down the still-rapid economic growth of China and China’s growing importance in the world economy. China’s government, in turn, aims to achieve leadership in robotics, biotechnology, and artificial intelligence. It will provide financial support to high-tech industries and will do everything possible to prevent the United States from stopping or slowing down the modernization and digitalization of its economy.

The current situation of US-Chinese trade relations is referred to as the Cold Trade War. The common economic interests of both countries are more significant than their disputes. The mutual interdependence of both economies has led to negotiations that will likely result in a new, “fairer” trade agreement. Any new US-China trade agreement should include a so-called a new trade architecture that will regulate not only the use of classical tools in mutual trade such as tariffs, quotas, and sanitary and phytosanitary certificates but also other intellectual property protection, technology transfers, and Chinese state subsidies to manufacturers and exporters. The new agreement will also deal with questions beyond trade, such as cyber espionage and the expansion of US firms’ access to the Chinese market.

Finally, we note that the United States’ protectionist attack on its trading partners, especially China, has political and economic dimensions. US leaders have designated China as the United States’ chief strategic rival in the future. Placing various constraints on China’s trade with the US and adopting ways to slow down China’s economic growth are some of the tools the United States is using to slow down China’s political power growth.

Chapter Two:

The Motive behind the Trade War

between the United States and China

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Introduction

In recent decades, China has enjoyed a consistent increase in its economic power. This increase has been juxtaposed with America's declining share especially in international trade and global production. This phenomenon has shifted the geopolitical landscape of the world with the two becoming the "Group of Two." In 2015, China established its dominance in international trade when it became the leading country in commodity exports. At that time, the country's nominal GDP reached an all-time high of \$14,092 million, which translated to a whopping 16.1% share of the global GDP (Bolt et al., 2019). This took China up to the second place; behind America whose nominal GDP was \$20,412 million and a lion's share of the world GDP standing at 23.3%. Even with a lesser nominal GDP, China was better than the USA when it came to absolute GDP by purchasing power parity with \$23,159 million against America's \$19,390 million (Li et al., 2020). China has also established itself as a leading exporter, reporting an annual export volume of \$2263.33 million in 2017 against the USA's \$1546.72 million (Li et al., 2020). Although studies have shown that China's economic influence has increased and is expected to increase even further in the coming years, it is the USA that still dominates in stock, commodity markets for energy, and credit, allowing the USA to remain the world's superpower in the world's economy.

This dominance enjoyed by the USA in the world economy was been threatened by the rise of China as a force to reckon with, leading to major conflicts in the bilateral trade relations between the two countries. The effect was an increase in the competitive nature of technology firms in PRC, and consequently, an increase in China's exports.

The USA, under the Trump administration, accused China of several issues. First, they said China was using unfair trade policies, misusing its WTO membership and the advantages of trade

liberalization that came with it, and while at it, safeguarding its local market from the global competition through devaluation of the currency to encourage exports. They also accuse China of stealing technical know-how from American firms, which is a violation of intellectual property rights. President Trump's administration directly negated international law and pre-existing multilateral agreements (Li et al., 2020). America's policy of trade protectionism has been seen as a trade policy that promotes national egoism and even seen by others as an act of trade terrorism.

Although Trump's government did not seem to care about China's modernization, their interdependence is what held their bilateral relationship at bay. With Trump's government remaining firm, China was willing to compromise and even went ahead to open up its domestic market for American products (Li et al., 2020). Even so, the sanctions that America imposed on China had and still have enormous effects on China's industrial policy and even acts as a major hindrance to China's "Made in China 2025" strategy.

2.1 Cyber Security

Cyber security is one of the most outstanding factors contributing to the China-US trade feud. China's vigorous cyber security laws and policies are seen by the US as a contributor to the burgeoning Sino-American trade war. The administration of President Trump accused China of stealing technical knowledge and skills from American companies which is a violation of intellectual property rights (Chong and Li, 2019). In response, the Trump-led government made concerted efforts to thwart this theft of intellectual property and cyber espionage (Bolt et al., 2019). Just to show how serious America was on this issue, America banned all American-owned companies from trading and having any business relations with Huawei, which is one of the largest Chinese telecommunications and electronics companies. The government argues that Huawei was

not only stealing intellectual rights but also spying on the US government and other US corporations. This trade sanction was actualized in May 2019.

The targeting did not end there. In June, Trump's administration begun targeting other Chinese supercomputing companies operating in the country. These companies included the Higon, Chengdu Haiguang Integrated Circuit, the Chengdu Haiguang Microelectronics Technology, Sugon, and the Wuxi Jiangnan Institute of Computing Technology (Li et al., 2020). To support their stand on targeting these Chinese-based companies, the USA claimed that these companies were developing technology and using the products of this technology for China's military purposes (Chong and Li, 2019). In the same month of June, the president of America imposed restrictions on Visas issued to Chinese students in the USA who were affiliated or associated with China's infamous 'Military Civil Fusion Strategy.' America, and Trump, believed that these students and other scholars were being used by the government of China to illegally steal America's intellectual property (Bolt et al., 2019). In July 2020, Chinese students in America who had failed to disclose that they were affiliated with the People's Liberation Army (PLA) during the process of application for admission and application for employment positions in various institutions of higher learning in America were arrested by officials from the Federal Bureau of Investigations (FBI). Although the reasons for their arrests were based on fears of spying, it was clear at that time that the existing trade war between China and America was more on technological dominance than on trade itself.

The Trump administration also threatened to impose huge trade tariffs on China amounting to about \$50 billion if China did not do away with their trade policies that left US companies in China with little choice but to transfer their technology to China-owned companies. Such policies enacted by the Chinese government required all foreign companies in the country to bring and

submit their technologies and products for the government to review, in addition to other such provisions as stipulated by the policies (Chong and Li, 2019). Other areas that the American government sought to impose trade tariffs on China include robotics, information technology, and Communication.

2.2 The Oil Factor

Another major element that was passionately advanced by the Trump administration was a push for energy independence. The government was very vocal and active in pushing for fossil fuels and minerals development (Bolt et al., 2019). The government even made concerted plans to give financial and political support and even do away or have a rollback on environmental policies that hindered the country's ability to achieve energy independence. The president even promised Americans an era of "energy dominance" with which he meant that his government was committed to increasing the production of oil and gas (Chong and Li, 2019). This would mean that coal would be the main source of energy again, with expansion in nuclear and hydropower energy.

Even in the face of the COVID-19 pandemic, the Trump administration advanced its objectives of improving America's fossil fuel industry. The president formed a task force known as the Great American Economic Revival whose main purpose was to reopen the economy and in this task force, the president appointed nine executives from the oil and gas firms, one from the oil mining sector, and two from the utility sector (Chong and Li, 2019). His efforts bore some fruits and in the early days of 2020, oil prices decreased. At this time, President Trump tried to broker a deal that would see a reduction in the world production of oil especially from Saudi Arabia and Russia. This move was meant to reduce the global oil surplus and thus reduce pressure on America's oil reserves. By this time, the oil and gas reserves in America were slightly negative (Bolt et al., 2019).

The US Department of Energy provided aid to the oil industry by leasing space when the government's desire to buy millions of barrels of oil for its SPR was halted by Congress. With the pandemic hitting most industries, the Trump-led administration issued the biggest stimulus program ever and much of this money was channeled towards companies that had been affected by the pandemic, including the energy industry.

When Trump threatened to impose sanctions and trade tariffs on Chinese imports, the government of China battled by imposing an official 5% tariff on USA crude oil. This extrapolated the US-China trade war and consequently, the global oil demand decreased, sinking the oil markets globally (Chong and Li, 2019). At the beginning of 2020, the two countries a trade pact in which one of the agreements was that China would commit to buying energy worth \$52.4 billion in only two years. Before the trade war between the two countries, China was the second-biggest buyer of US crude oil. In 2017, China reduced its crude oil import from the US and the total oil exports from the US decreased from 95.36% to 45.39% (Bolt et al., 2019). To survive, the USA had to shift its focus and look for alternative markets for oil exports. South Korea and the Netherlands were the main targets and the US increased their oil exports by 67.26 million barrels and 54.31 million barrels in 2019 in these two countries.

The trade war between the USA and China had the adverse effect of increasing the aggregate cost of production of oil. Since a huge proportion of the capital equipment comes from China, and they were being forced to import from America at a relatively more expensive cost, this impacted their capital budget and therefore fewer projects and fewer imports.

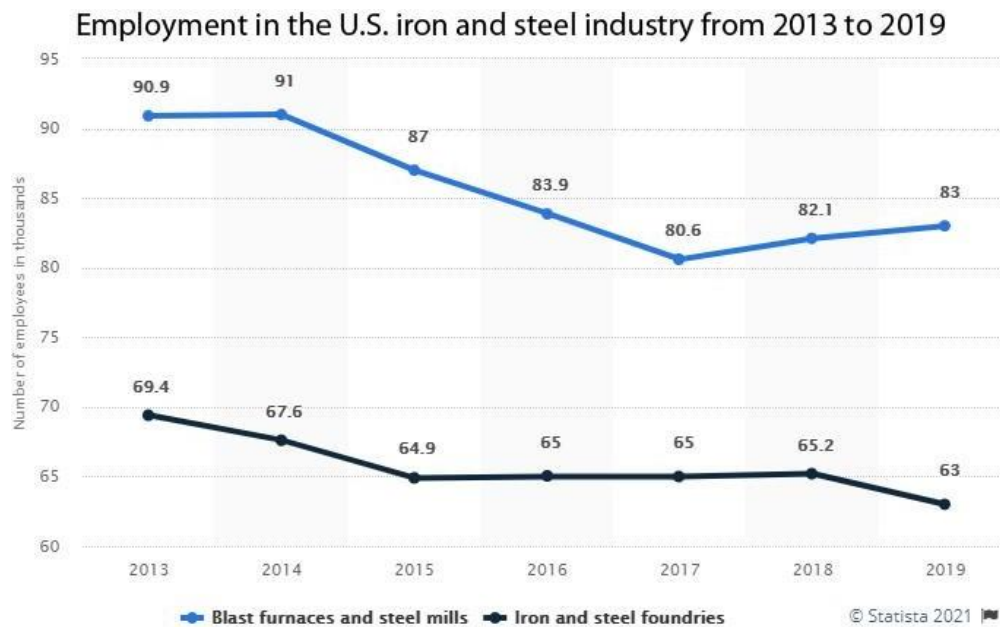
2.1.2 The Steel Industry

Global steel imports were 312 billion USD in 2019, down 3% compared to the previous year. According to WTO data, the USA has been the world's largest steel importer for the last 20

years. Globally, over 6 million people work for the steel industry. World crude steel production reached 1.8 million tonnes (mt) for the year 2019 (Worldsteel 2020)

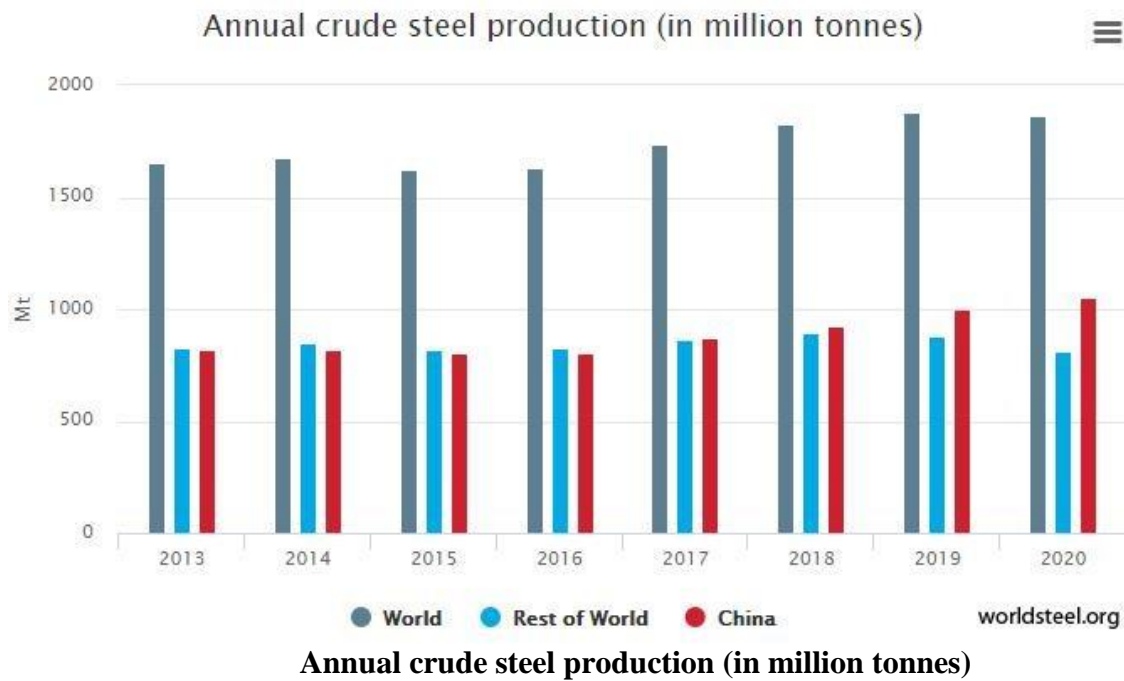
The main strategy of the USA in the trade wars that started in the Trump era was to set tariffs and quotas and get concessions with the countries with which the USA had a trade deficit, which would turn the bilateral trade in favor of the USA. However, the 25% additional tax on imports of steel products served a different purpose than the tariffs on many other products. The main strategy was to increase production in the American steel industry, increase employment, and indirectly increase the use of American steel in the domestic industry, such as the automotive industry and the arms industry.

Trump imposed 25% tariffs on imported steel and 10% on imported aluminum from most countries in 2018, arguing that these protections were necessary for U.S. national security to maintain healthy domestic production. (Lawder 2021) Trump exercised a rarely exercised power granted by Congress in 1962. Accordingly, the U.S. president can prevent importing a product or take restrictive measures if it causes a situation that threatens U.S. national security. Citing the commerce ministry's view that reliance on imports of metals such as steel has negatively impacted the United States' ability to manufacture weapons, Trump signed off on initiating trade wars without the need for Senate approval. When we examine the capacity and employment figures of the steel industry. It is observed that employment in the steel industry in the USA continued until 2018 when the tariffs were introduced.



Employment in the U.S. iron and steel industry from 2013 to 2019

Employment in the U.S. iron and steel industry has seen a continuous decline over the past three years, but employment figures have shown some signs of recovery of late. The number of employees working in blast furnaces and steel mills increased moderately to 83,000 in 2019. (Statista 2021) There are 67,464 people employed in the Iron & Steel Manufacturing industry in the U.S. as of 2021. the effect of the loss. Such as manufactured steel articles, transport machinery, and equipment, where production costs will rise. There are over 3.4 million persons working in these industries. (Sharif 2020)



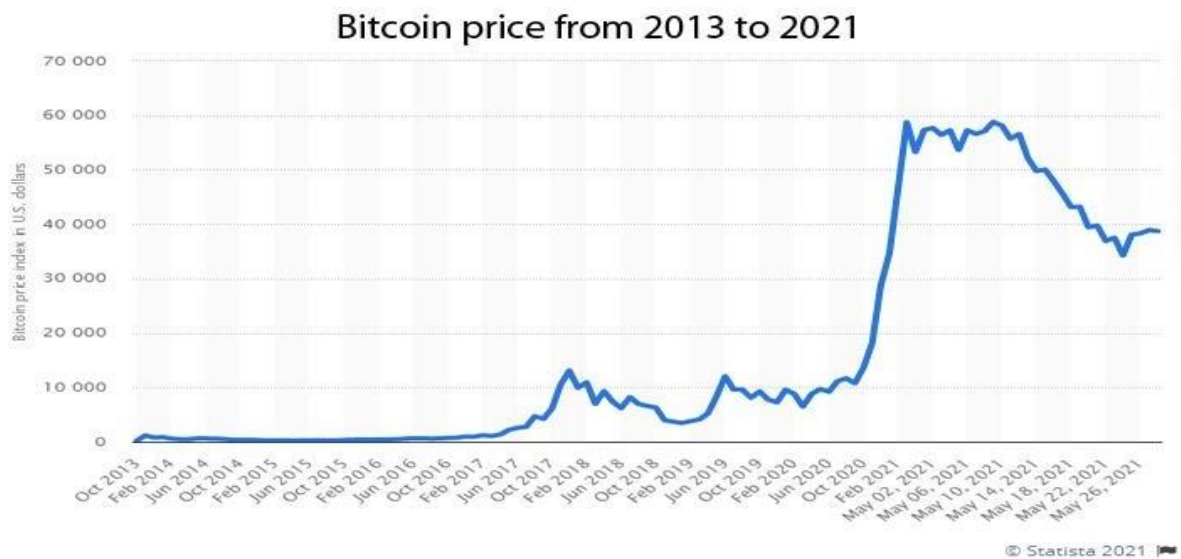
The US is the world's largest steel importer, and the US industry's steel deficit has been ongoing for more than a decade. While US steel imports increased by 78% between 2009 and 2019, steel exports decreased by 8%. Statistics show that the USA has been running a foreign trade deficit in the steel trade for many years. The US steel industry produced approximately 6 million tons more steel in 2018 than in 2017. This figure showed that American steelmakers had reached the highest capacity utilization rates in the last ten years.

However, the main reason for this is the high steel demand of the US domestic industry and the inability of domestic production to respond to this demand. With the tariffs on steel imports, it aimed to increase domestic producers' competitiveness. This strategy was partially successful, but domestic production capacity is not enough to feed the US industry. Another factor is the increase in the cost of imported steel and the inability of local production to meet the needs, resulting in an increase in the cost of many products that use steel in their production, and therefore in retail sales prices.

2.1.3 The Control of Digital Currency (Bitcoin)

The China-US rivalry that surfaced during the Trump era began long before the trade wars. Those who liken the struggle to the cold war accept that the current situation is very different from the rivalry between the USA and the USSR, which lasted until the eighties.

The trade relations between China and the United States, which have grown exponentially over the past two decades, make a definitive separation and the risk of conflict a scenario to be avoided for both countries. Both countries follow a set of trade and industrial policies to support their high-tech industries. Technology is the most strategically important battleground. Some developments show that digital currencies will be the new area of competition between the two countries and that future competition and conflict will be experienced, especially in this area.



Bitcoin price from 2013 to 2021

BTC / Yuan transactions were allowed in China in 2015-2016. Also, in this period, crypto currency mining was very common in China, as computers and equipment were cheap, and BTC could change hands by converting to Yuan. Crypto-currency trading has been illegal in China

since 2019 in order to curb money laundering. Beijing banned banks and payment firms from providing services related to crypto currency transactions.

Digital currencies (digital money) and crypto currencies are sometimes confused with each other, but there are big differences between them. Central bank-backed digital currencies, such as the potential digital euro and digital Yuan, may become a reality in the coming years. Unlike crypto currencies such as Bitcoin and Ethereum, these currencies promise less volatility and greater security. (BBVA 2021)

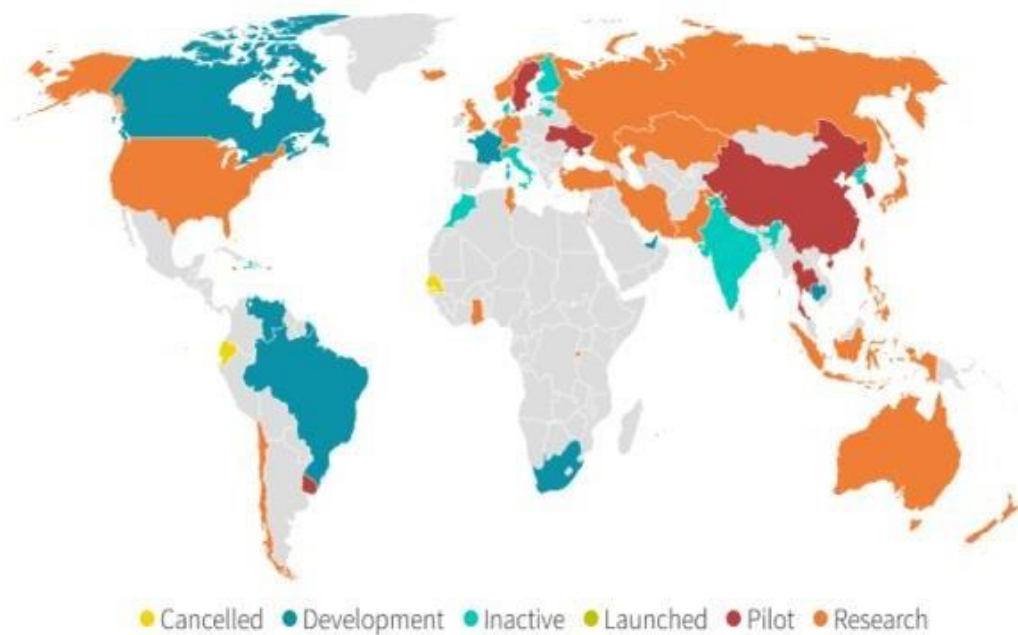
Analyses on digital currencies show that primarily crypto currencies such as Bitcoin will be used as a tool for both technological and economic struggles between countries. However, at this point, the fate of other digital currencies is also important. Although the actors and the name of the currency change, it is inevitable that digital currencies and crypto currencies will create alliances between states and cause policies that will turn into a competition.

China is keen on using evolving blockchain technology that underpins crypto currencies to help build the digital economy and quicken the adoption of its sovereign digital currency, analysts say, while avoiding the risks that decentralized virtual networks pose to the financial system. (Yeung 2021) China's government policies towards digital and crypto currencies are under the lens of other countries, especially the United States. According to analysts, China is preparing for the transition to the digital economy, the transition to a digital currency. China's goal is to develop a digital currency accepted in the global economy and dominate international markets. By supporting crypto currencies, China is showing its willingness to use emerging blockchain technology. Other countries are exploring creating their own CBDCs — 60% of more than 60 central banks surveyed by the Bank for International Settlements last year. (Ferguson 2021)

The USA's accusation against China is that China's policies towards digital currencies will harm the interests of the USA. The effects of digital currency competition on the US national security system are explored. The BIS survey showed over a quarter of central banks do not currently have the authority to issue a CBDC, and about 48% remain unsure. Around 60% see themselves as unlikely to issue any type of digital currency in the short or medium term. (Jones and Wilson 2021)

Another issue is the factors that drive government intervention to create or regulate digital currencies. For example, as a scenario, the introduction of the digital Yuan, or a crypto currency backed by China and held in reserves, as a reserve currency would reduce global demand for the Dollar.

Central bank digital currencies across the world



Central bank digital currencies across the world

In such a case, the freedom of the USA to print money and thus its privilege to borrow will come to an end, and the creation of digital alternatives to the US dollar may also weaken the capacity of the USA to impose sanctions on countries with which it competes. Digital currencies also mean that governments must protect digital currency archives, i.e., digital bank records.

Whether for government institutions, private companies, or banks, Cyber security attacks on digital ledgers and accounts are a new battleground emerging with the new money order. On the US side, China's digital money investments and cyber attacks on US digital money resources are seen as solid scenarios.

2.2.1 China's Partnership with Old U.S. Development Partners in Africa

The relationship between the US and China has been complex from the past. The main historical ties and/or beef between these countries include economic cooperation, the ever-existing mutual suspicion over the intentions of the other, and their bitter hegemonic rivalry about the Pacific. Although many scholars and world leaders describe the relationship as the world's most influential bilateral relationship, America sees China as their biggest rival in dominating global supremacy (Lukin, 2019). This dates back to the Chinese Civil war where the US turned against China after supporting them during the Pacific war against Japan. The USA fought had a major armed confrontation with the People's Republic of China and there was disquiet between the two countries for over 25 years. This was eased when US President Richard Nixon visited China in 1972 (Lukin, 2019). This opened the door for good bilateral ties between the US and China until the era of President Barack Obama whose Asia Pivot Strategy angered China. Despite this tension, the relationship between them remained relatively strong until the Trump administration took over.

With a change in administration after Obama left office, the US did not prioritize Africa as a place to make investments in commerce activities. Instead, the USA has directed its efforts towards countering China's commercial and geopolitical influence in Africa (Mlambo et al., 2016). This derailed America's efforts to implement their USA-Africa Strategy and their preexisting Proper Africa Plan (Lukin, 2019). The two proposals were meant to give America a winning hand in Africa and help to advance African-American mutual interests. Prior to Trump's administration, the USA had always made huge efforts to establish strong and long-term social-economic development ties with Africa through the Development Bank of Africa, the US President's Emergency's Plan for Aids Relief (PEPFAR), and the Millennium Challenge Corporation (MCC).

On the other hand, China has established itself as one of Africa's leading investment partners. They have helped in building roads, telecommunication towers, and other capital investments across the continent. Research has also shown that China's investment and financing plans in Africa have created a lot of jobs for African locals. In fact, EY, a global accounting company published in one of their yearly reports in 2020 that the impact of China's investment in Africa is so huge that in 2016, it created more than three times the amount of employment opportunities created by the USA in that year alone (Mlambo et al., 2016).

The introduction and implementation of the 10 cooperation plans during the Johannesburg Summit of the Forum on China-Africa Cooperation (FOCAC) held in the year 2015 have helped advance China's influence in Africa (Lukin, 2019). From that period, China has been able to bring Chinese companies to Africa. This effort has created jobs for over 900,000 Africans in addition to over 200,000 people who have benefited from China's provision of technical and vocational training.

Americans have had their reservations about China's philanthropy in Africa. The American media, together with politicians, have always called China an economic predator (Mlambo et al., 2016). They accuse China of having the intention to plunder Africa's natural resources and continue practices that damage the environment.

2.2.2 The South China Sea Question

The tension between the US and China has also been strengthened by the issue of the South China Sea. China has in the recent past expressed its sovereignty over the sea. The South China sea is important to the US because it has untapped oil totaling an estimated 11 billion barrels in addition to 190 trillion ft³ worth of natural gas. China is not the only country claiming these natural resources (Raine & Le Miere, 2017). Other countries demanding a claim include Indonesia, the Philippines, Vietnam, Brunei, and Taiwan. China holds the idea that international law forbids foreign military activities from being conducted in its Exclusive Economic Zone (EEZ).

On the other hand, the USA was of the idea that other countries claiming ownership of these islands held the rights to freedom of navigation and that these countries do not have to the claimants (China) of their military activities as provided for by the United Nations Convention of the Law of the Sea (UNCLOS) (Raine & Le Miere, 2017). This war was heightened in 2016 when the Philippines took a claim against China at the Permanent Court of Arbitration (PCA) in The Hague under UNCLOS. The court's ruling was in favor of the Philippines on almost all counts. Although China is a signatory to the treaty that established this tribunal, the country has refused to follow the rulings of the court or accept the court's authority.

In the last 5 years, China has made increased efforts to try and regain land in the South China Sea. The country has done this by increasing the physical size of the islands or creating new islands on the sea (Mlambo et al., 2016). China has also made huge advancements to militarize

these islands by constructing new ports and installing military devices and all over (Raine & Le Miere, 2017). They have also constructed airstrips in these islands for example the Paracel and Spratly Islands where they have both airstrips and outposts. In the Woody Islands, China has successfully deployed a radar system, cruise missiles, and fighter jets to strengthen its military dominance in these islands.

The USA has come in strongly to challenge China's aggressive claim, dominance, and land reclamation activities. The main reason for America's involvement in their desire to protect their political and economic interests in that particular region. The USA has conducted Financial Operations (FNOPS) and given sufficient support to the South East Asian partners as opposed to China's dominance (Raine & Le Miere, 2017). The argument here is that the USA, with interests in maintaining the freedom of navigation and ensuring that there is proper security for the Sea lines of Communication, ardently supports the idea of having an agreement that provides a binding code of conduct. With China standing firm on their claim on these islands, they threaten the Sea Lines Communications and this is an important facility that helps in aiding both trade and movement of the naval forces.

2.3 The Reasons for U.S Support of Taiwan

The issue of Taiwan has perhaps been one of the most sensitive topics around the US-China Trade war and it does not seem to change anytime soon. The stalemate that is evident across the Taiwan Strait can arguably be described as one of the most dangerous flashpoints among the two superpowers – the US and China. This impasse is one issue that can trigger military conflict between the US and China at a moment's notice (Chen et al., 2017). The rapid rise of Chinese power over time has made the US rethink its stand on Taiwan. Since the cold war, the Geopolitical value of Taiwan has decreased massively, and they can therefore not be able to face off against

China's military. The United States, therefore, comes in to support Taiwan for the following reasons.

Firstly, the East Asian region fears thought of US-China military conflict over Taiwan. If the US neglects Taiwan and leaves it to China explicitly or otherwise, then the East Asian region would doubt and question America's overall resolve over the mightily rising China. The region would also doubt America's commitment to their interests and other commitments in the region. If the US stops supporting Taiwan in terms of Security, the region would most likely undermine America's position in terms of providing regional stability through the provision of security and as a result, nations with historical suspicion will try to fill the security vacuum (Chen et al., 2017). Some nations in the region have always privately conveyed thoughts of how Taiwan is handled but fear to make these statements public for fear of alienating China.

The gradual evolution of Taiwan from a one-party state ruled by a totalitarian authority to multiparty democracy has been another major reason why the US is interested in supporting and maintaining the security of Taiwan. This transformation has been the dream of America concerning the East Asian region. America dreams of a day when the mainland will do what Taiwan has done (Willasey-Wilsey, 2020). America hopes to see a full transition to a stable democracy, a fair, and a more open society in the mainland that is based on the rule of law. The United States can be credited for being able to bring about social, political, and cultural freedoms that are now being enjoyed by Taiwanese citizens.

Another important reason why The US believes that how China handles Taiwan is a replica of China's ability to deal with disputes as it rises. It is also a measure of how the US and the rest of the world will be able to handle challenges brought about by rising China (Chen et al., 2017). For this reason, should the US compromise on its commitments to Taiwan and regional interests

for the fear of how China will react, this might give China a signal of license regarding other fundamental matters in the region and beyond (Willasey-Wilsey, 2020). Additionally, other nations around the world might be implored to rethink their strategic relations with these two superpowers owing to this shift in the balance of regional prowess. This might lead to such nations realigning themselves, a situation that might deteriorate America's position in Asia.

5. Conclusion

Conclusively, the USA has over the years enjoyed dominance of the global economy but the rise of China in the recent past has threatened this dominance. The tension between these two superpowers has strained bilateral relations between them. The Trump administration stood out as a major reason for strengthening the already poor relations between America and China. The Trump administration was ready and always willing to impose sanctions upon China for various reasons. This made China compromise and as a result, they even opened up their local market for American products (Lukin, 2019). The strains between the two countries can be explained in the following subtopics; cyber security, the oil factor, the old relationship between them and their investment in Africa, the China-South Sea conflict, and the relations between the USA and Taiwan, among other political and economic reasons.

The Trump-led administration accused China of cyber security crimes like stealing technical skills and violation of intellectual property rights (Chong and Li, 2019). America, therefore, imposed trade sanctions against China by banning American corporations from doing business with Huawei. Another factor for the conflict between them is the oil factor. The Trump administration was determined to establish America as a fully self-sufficient country in terms of energy. They made all efforts to increase the production of gas and fossil fuel, even by ignoring and bending environmental laws (Lukin, 2019). The old relationship between the two countries

has been historically on and off. When it comes to Africa, the USA has shifted its focus from funding African projects to countering the geopolitical and commercial influence of China in Africa. On the contrary, China has since made massive investments in Africa's infrastructure, becoming one of Africa's biggest investment partners.

The tension does not end there. With China expressing its sovereignty over the China-South Sea, America has made a very stern stand to challenge China's claim and dominance (Raine & Le Miere, 2017). America's desire to protect their political and economic interests in that region drove them to involve themselves in the issue. With the conflict between China and Taiwan, America has come in to support Taiwan. One of the main reasons why America supports Taiwan in this stalemate is because submission would mean China dominates and the East Asian region would doubt America's resolve position in global military and political influence.

Chapter Three:

Chronology and Causes of the Trade War

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Introduction

In 2018, former President Donald Trump started a trade war with China using a particularly U.S. legal rationale: calling foreign imports a national security threat. Trump followed this up by imposing tariffs and/or quotas on imports. Subsequent retaliation by trading partners and the prospect of further escalation risked significantly hampering trade and investment—and possibly the global economy. Chong, T. T. L., & Li, X. (2019)

The United States is currently imposing a 25% tariff on approximately \$250 billion worth of imports from China and a 7.5% tariff on approximately \$112 billion worth of Chinese imports. The U.S. Trade Representative began an investigation into China in August 2017 and published its findings in a March 2018 report that found China was conducting unfair trade practices. The same day, President Trump announced tariffs on up to \$60 billion worth of imports. The administration soon published a list of about \$50 billion worth of Chinese products that would be subjected to a new 25% tariff. Stage one of the tariffs began on July 6, 2018, on \$34 billion worth of Chinese imports, and stage two, the remaining \$16 billion, began on August 23, 2018. These tariffs amounted to a \$12.5 billion tax increase.

The administration imposed stage three of Section 301 tariffs in September 2018: 10% on \$200 billion worth of goods from China. This stage was scheduled to increase to 25%, beginning January 2019, but the increase was delayed until May 2019. Dembinskaya, N. (2019)

1. Possible Scenarios and Outcomes of the Trade War

During the U.S.–China trade war, the Trump administration imposed several rounds of tariffs, which had a major impact on the U.S. economy. Herein, we analyse the effects of imposed, threatened, and retaliatory tariffs. Tariffs damage economic well-being and lead to a net loss in

production and jobs and to lower levels of income. The sectors most affected include agriculture, chemicals, and transport equipment in the United States and electronic equipment, machinery, and other manufacturing in China (Freund et al., 2018).

According to some experts, China's response in the trade war with the United States may mean it will be more painful for the American economy than for China's. American companies will partly lose their consumers in China because of nationalistic appeals to boycott American companies' products, including Apple, McDonald's, and KFC. Additionally, internal China's demand for the products restricted by the United States (e.g., ZTE and Huawei) is increasing (Wang, 2020). We foresee four potential scenarios for how the U.S.–China trade war will unfold.

1.1 Scenario 1. Trade War Escalates into a Second Cold War

The divide between China and the United States is expected to grow rapidly, disrupting long-running economic ties and forcing investors to reassess their view of global markets (Patti Domm, 2020). The United States will surround China 'with powerful American military capabilities, creating NATO-like adversarial alliances, isolating it economically and imposing costs when it did things the United States did not like' (Suisheng & Guo, 2019, 137). China will have to reduce its export-oriented production. Unlike in the first Cold War, China could potentially win because of its competitive economy and the fact that TNCs have made their way to the global arena.

China, in turn, will strive to push the United States out of The Asia Pacific Region. The United States will justify its unilateral sanctions by showing a willingness to strike better, more 'honest' deals with China while serving the interests of the U.S. economy. The country will achieve its goals by presenting ultimatums to its trade partner if its national interests or security interests are at risk. As a result, more and more global problems will be addressed by unions of countries—

excluding the United States from, for example, climate agreements, nuclear agreements with Iran, the Trans-Pacific Partnership, and China–European Union summits. The United States will gradually become isolated in the international community. The role of the United States in global supply chains and international trade will decrease because of the deterioration of the country's failing authority. Although some U.S. companies may profit, others will suffer losses. There is growing discontent among the American business community and its overseas partners (with recent examples being Ford and Boeing and the equipment manufacturing and chemical industry).

The U.S. government bond market will suffer, and inflation rates in the domestic consumer market will increase. The risk of U.S.-imposed unilateral economic sanctions will push other countries to search for alternative suppliers and markets. China has become a leader in the Regional Comprehensive Economic Partnership (RCEP) of 16 countries. This partnership's scale has expanded beyond the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, despite the exclusion of the United States: the member countries contribute to 30% of the global GDP and contain 50% of the world's population (Markov, 2018). Exporting to RCEP countries from the PRC accounts for 26% of China's total exports. The development of this mega-union will strengthen the leading role of China in the region, but it could also cause a decrease in international trade standards because the agreement does not cover issues of labour, human rights, e-commerce, and public procurement. At the same time, China's investment climate will suffer. The implementation of the 'Made in China 2025' plan could fail, slowing down the technological progress of the country (Dolgov & Savinov, 2018).

China has gradually increased its R&D expenditure, but it still lags behind the United States in this area. China's and the United States' R&D shares account for 2.1% and 2.8% of GDP, respectively. According to Liu, in view of the importance of Made in China 2025 to China's

economic future, it will be difficult for China to make substantial concessions during the trade war (2020).

1.2 Scenario 2. Consensus to Avert the Trade War Reached

A trade war will end with a compromise. This is possible if the United States learns to respect the other party's core interests and major concerns. China has already declared its readiness to open its car market, liberalise its banking sector, strengthen its protection of intellectual property rights, and limit the transfer of American technologies to Chinese businesses. China could also agree to buy as much of the agricultural produce as American farmers can supply.

Lai (2019) stated that China is willing to seek a compromise and increase imports of goods and services from the United States, cut down government subsidies to its businesses, and make the transfer of American technology more transparent. However, the United States is not likely to cancel the increased import tariffs it previously introduced. This scenario does not exclude the possibility that the trade conflict can be frozen up for a long period: 'Although deep and warm peace among great powers is rare in history, a cold peace or the U.S.–China détente is a realistic goal' (Lai, 2019).

Both countries are deeply interested in exporting products and services on a bilateral basis and developing global supply chains. A negotiated settlement that ends the conflict is possible because both countries will lose more than they will gain over the long term. We can expect that China and the United States will remain strategic partners, despite the increased competition between them. Their business-to-business ties will become closer, and their mutual understanding of each other's cultures will improve.

China will increase imports of LNG, agricultural raw materials, and food, as well as high-tech products. The U.S. administration will maintain a relationship of trust with its major trading

partners and will refrain from imposing unilateral sanctions, thus returning to respecting World Trade Organization (WTO) rules. The largest American companies will play a major role in this process by lobbying for and promoting free trade and conveying the idea that a trade war against the whole world is not beneficial for the United States (2020).

1.3 Scenario 3. Trade Conflict Remains Frozen Because of Already Implemented

Bilateral Measures

The trade war is becoming prolonged, and high-import tariffs are not being cancelled. At the same time, companies in both countries are adapting to export-import operations under economic sanctions and developing new plans to circumvent trade restrictions. It can be presumed that this is inevitable to some extent because companies, who are the main actors in the international economy, and not countries, drive foreign economic relations. The benefits of foreign activities are valuable incentives for companies in regard to looking for ways to circumvent sanctions and embargoes to preserve and increase profits. In this scenario, the imbalance in trade between the United States and China will decrease and, according to official statistics, will reach a target level of \$200 billion or possibly even less. However, goods of Chinese origin will continue being supplied to the American market from other countries, such as neighbouring countries in the APR. (Larisa Kapustina 2020).

As Vinogradov et al.(2019) noted, Chinese companies have already begun moving production units to Vietnam, Bangladesh, Ethiopia, and other countries with relatively cheap labour, given the fact that China largely exports TNC products that have placed final assembly production units in the PRC. Foreign firms account for 59% of Chinese exports to the United States, and 12% of these exports are products made by American companies located in China (Vinogradov et al., 2019).China's exports to the United States are typically Chinese-assembled

goods that contain many foreign parts and components and are often American branded. A further 37% of U.S. imports from China consist of the parts and components on which U.S.-based manufacturers rely.

To change the geographic structure of China's exports and imports, TNCs have begun to restructure their global supply chains and are considering moving the final assembly of goods from China to neighbouring Asian countries. While maintaining final assembly in China, the intermediate links in the global production chain can be made cheaper. For example, China supplies \$2 billion/year worth of iPhones to the United States, but only a small fraction of the product's value is created in China because the device is made in Taiwan from components that many countries supply, including Germany, Korea, Japan, the United States, the Netherlands, and Singapore (Savinov et al., 2019).

Trade wars lead to changes in export-import flows and orientations with other countries and can result in the emergence of regional free-trade zones and economic alliances. Lawrence J. Lau (2019) noted the shift in China's foreign economic relations focus to such countries and regions as the European Union, Association of Southeast Asian Nations, Japan, and Russia. Analysts have identified a trend towards intensifying China-EU trade and economic ties, and the Asian market is becoming more important for European business than that of the United States (S.I. Dolgov, Y.A. Savinov 2018). Consumer spending has grown four times faster in China than in the United States over the last decade.

Iqbal et al.(2019) argued that the trade war would result in losses for both conflicting parties while benefiting other countries: 'Being the two largest economies of the world, giving in for disengaging trade with each other is bound to have a ripple effect on the global system of trade'(p

110). In view of U.S. protectionism, countries with large domestic markets will be the ones to gain a competitive advantage.

Since the beginning of the trade war, when the United States limited imports from China, six countries in Southeast Asia and Taiwan organised supplies of nearly 1,600 new categories of goods that they have never sold in the United States before (Dembinskaya, 2019). At the same time, because the Chinese market is crucial for many U.S. companies, restricting access to it could cause great financial damage. Consequently, these companies are seeking possible ways to circumvent sanctions and lobby for and promote their business interests. Under this scenario, the United States will achieve its goal of reducing its trade deficit in its bilateral trade with China, but at the cost of economic efficiency.

1.4 Scenario 4. Trade War Escalates into Hot World War III

Because the United States allows limited use of nuclear weapons, a trade war could escalate from cold to hot, which is a scenario nobody wants. According to Chong and Li (2019), the trade conflict between China and the United States is of a fundamental nature and cannot be easily resolved. The conflict is associated with the race for global economic domination. The United States has a serious advantage in cyberspace and seeks to 'digitally colonise' the global economy. According to Ashmanov, almost all neural platforms in the world are U.S. based, including those belonging to Google and Facebook (Smirnov, 2019):

The US shows with its actions, that they are ready to easily throw any inconvenient contracts and obligations away into the trash can, and also to ignore the UN and other international organisations, granting itself the right for unilateral military actions, the US is moving towards the role associated with the British Empire after the World War I (Savinov, 2019).

This scenario seems unlikely now, but it cannot be fully discounted. Trump has made matters worse by acting unilaterally against China in a way that would appear to breach WTO rules. Indeed, even potential allies find Trump's 'America First' rhetoric repulsive. All this has given China the political high ground: 'China doesn't want a trade war, but we're not afraid to fight a trade war' has become Beijing's official line (Legrain, 2018).

6. Conclusion

As a result of trade wars between countries, changes occur in the international trade arena as well as a slowing of the financial markets. The current US–China conflict has the potential to divide countries into two fighting blocs, with one supporting China and the other backing the US, resulting in the formation of mega-economic alliances as well as regional currency zones.

The US merely wants to restrict China's economic progress because it is afraid that China would overtake it and become the next global economic powerhouse. As a result, protectionist policies have been implemented in the United States. The current status of trade ties between the United States and China is referred to as a "Cold Trade War." As previously said, given the likelihood that both nations would lose in the long run, it is anticipated that they would see the need of reaching a peaceful resolution to their dispute.

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الحروب التجارية العالمية: الراحون و الخاسرون في المنطقة العربية، اللجنة الاقتصادية و الاجتماعية لغربي آسيا (الإسكوا)،

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ملخص

أدت القوة الاقتصادية المتزايدة لجمهورية الصين الشعبية في غضون السنوات الأخيرة إلى انخفاض حصة الولايات المتحدة من الإنتاج العالمي و إلى إحداث تغييرات جذرية في المشهد الجغرافي السياسي العالمي. في عام 2015، برزت الصين كرائدة في صادرات السلع الأساسية لتصبح بذلك لاعباً رئيسياً في التجارة العالمية. ونتيجة لهذا فقد خرجت الولايات المتحدة بسياسات كانت تهدف إلى إبطاء النمو الاقتصادي الجذري للصين في ظل الخوف من تجاوزها وتحولها إلى العملاق الاقتصادي على مستوى العالم. ومن هذا المنطلق استحدثت الولايات المتحدة سياسات حمائية. كما اضطرت الصين إلى وضع سياساتها المضادة.

الكلمات المفتاحية: القوة الاقتصادية، الصين، الولايات المتحدة، التجارة الدولية، حرب التجارة الباردة، الحرب التجارية

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