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Who Likes Cooperation? A Long-Term Analysis of the Trade War between the US, the EU and China*

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ABSTRACT

This article aims to demonstrate, through trade war between the US, the EU and China, that this phenomenon is a constant aspect of international trade where its intensity and involved parties keep changing according to the structure of trade. In a long-term perspective, we argue that rather than being a series of phases of cooperation and war, international trade is a mixture of cooperation and war. The divergence and convergence of the American, European and Chinese economies since the 19th century in terms of manufacturing output has determined the structure of their trade relations and bargaining capacity, as well as their distinct conceptions of multilateralism.

Keywords: Trade War, Long-Term Perspective, Manufacturing Output, Trade Structure, Multilateralism

Kim İşbirliği Yapmak İster?

ABD, AB ve Çin Arasındaki Ticaret Savaşının Uzun Dönemli Analizi

ÖZET

Bu çalışmanın amacı, ABD, AB ve Çin arasındaki ticaret savaşı aracılığıyla söz konusu olgunun uluslararası ticaretin sürekli bir bileşeni olduğunu, yoğunluğunun ve ilgili taraflarının ticaret yapısına göre değiştiğini göstermektir. Tarihsel bir bakış açısıyla, uluslararası ticaretin birbirini izleyen işbirliği ve savaş döngülerinden çok, işbirliği ve savaşın bir karışımı biçiminde geliştiği savunulmaktadır. 19. yüzyıldan bu yana Amerikan, Avrupa ve Çin ekonomilerinin üretim çıktısı açısından ayrışması ve yakınsaması, ticari ilişkilerinin yapısını ve pazarlık kapasitelerini belirlemiş, ayrıca çoktarafılık anlayışlarını farklılaştırmıştır.

Anahtar Kelimeler: Ticaret Savaşı, Tarihsel Perspektif, Üretim Çıktısı, Ticaret Yapısı, Çoktarafılık

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Introduction

Trade war is a situation in which a nation retaliates against the unilateral protectionist measures of another nation with similar tariff rises and other restrictions on imports. The concept has been on the international agenda since the Trump administration increased tariffs on iron and steel (25%) and aluminum (10%) imports unilaterally, targeting exclusively Chinese and European goods in 2018. China and Europe then retaliated with increased tariffs on the American products. For the targeted countries and the rest of the world, this is another initiative of the declining, self-centered hegemonic power, suffering from the “diminished giant syndrome” coined by Jagdish Bhagwati,¹ or even a typical manifestation of Trumpism. The termination of the Transatlantic Trade and Investment Treaty (TTIP) negotiations with the EU, the US withdrawal from the Transpacific Partnership (TTP), the ‘modernization’ of the North American Free Trade Agreement (NAFTA - that became the US, Mexico, Canada Agreement (USMCA)),² and even the threat to pull the US out of the World Trade Organization³ (WTO) are other ‘revisionist’⁴ trade measures of the Trump administration. For the US, such procedures are the proper way of addressing trade distortion and forcing rivals to compensate their losses. They are not spontaneous, but instead the result of a waiting process, as their trade partners did not meet American expectations in specific issues for a long time. In the same vein, the US considers that the dispute settlement mechanism of the WTO is inefficient, thus not suitable for satisfying their demands.

Such ‘beggar thy neighbor’ strategies involving the state are associated with neo-mercantilism and the concept is widely used to explain the economic welfare aspects of trade war as it means that the foreign base of wealth is targeted through tariff increases. Explanations may also take into account that the interaction of states and firms shapes the global economy after the 1980s. The new trade theory or the strategic trade theory offered multidimensional explanations of changing trade patterns. According to Robert Gilpin, even this transformation was due to “growing dissatisfaction with the inability of conventional trade theory to explain trade patterns” and the “concern about the increasing trade problems of the US, especially with Japan in the 1980s.”⁵ The new theory, developed by Paul R. Krugman, James A. Brander, Barbara J. Spencer, and Avinash Dixit, among others, focuses, in a game-theoretic framework, on the impact of factors such as increasing returns to scale, imperfect competition, export subsidies, and import tariffs, as well as R&D and technological innovation and how they might distort the trade/become trade advantages as an outcome of the strategic interventions of states.⁶

1 Jagdish Bhagwati, “The Diminished Giant Syndrome: How Declinism Drives Trade Policy”, *Foreign Affairs*, Vol. 72, No 2, 1993, p. 22-26.

2 Office of the US Trade Representative, <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/fact-sheets/modernizing> (Accessed 13 January 2020).

3 BBC News, “Trump threatens to pull US out of World Trade Organization”, 31 August 2018, <https://www.bbc.com/news/world-us-canada-45364150> (Accessed 17 December 2019).

4 Ralph Ossa, “The Costs of a Trade War”, Meredith A. Crowley (ed.), *Trade War. The Clash of Economic Systems Endangering Global Prosperity*, A VoxEU.org eBook, CEPR Press, May 2019, p. 45-49.

5 Robert Gilpin, *Global Political Economy. Understanding the International Economic Order*, Princeton, Princeton University Press, 2001, p.123.

6 For an overview of the new trade theory see James A. Brander and Barbara J. Spencer, “International R&D Rivalry and Industrial Strategy”, *Review of Economic Studies*, Vol. 50, No 4, 1983, p. 707-722; James A. Brander and Barbara J. Spencer, “Export subsidies and international market share rivalry”, *Journal of International Economics*, Vol. 18, No 1-2, 1985, p. 83-100; Paul R. Krugman (ed.), *Strategic Trade Policy and The New International Economics*, Cambridge, MIT Press, 1986; Avinash Dixit, “Strategic Aspects of Trade Policy”, Truman Fasset Bewley (ed.), *Advances in Economic Theory: Fifth World Congress*, Cambridge, Cambridge University Press, 1987, p. 329-362.

There are also game-theoretical references focusing on functional explanations (individual rationality versus collective rationality) of trade war, taken as a collective action problem. For instance, Raymond Dacey used the model of ‘bully game’ in which a hegemonic power acts unilaterally to maximize its gains and other players accept those actions in order to get their second-worst outcome possible. Dacey also states that other players can change the dynamics of the game by implementing unexpected strategies like being ‘conciliatory’ or ‘provocative.’⁷ Robert Axelrod’s ‘tit-for-tat strategy’ of cooperative behavior among self-centered players offers an analytical tool for studying trade cooperation problems.⁸ To illustrate, Peter van Bergeijk cites the work of Carballo et al., in which the authors distinguish ‘hot trade war’ and ‘cold trade war,’ defining the latter as a situation where the “risk of tit-for-tat increases, but without actual trade-distorting measures being implemented.”⁹

This article does not deal with implementing a game-theoretic analysis, although it uses some of the related concepts mentioned above. Instead, it makes an empirical study of trade war through a data survey of American, Chinese and European economies from a long-term perspective. The study focuses on relations between these long-term leading actors in the global economy (from the early 1800s until now) in terms of GDP, growth rate, and share in global production. Moreover, they have been the three “largest global players for the international trade”, accounting for 45% of the world exports and imports in 2018.

The long-term perspective is used to demonstrate that in the global economy, the implementation of practices seen as elements of trade war is a constant phenomenon. Only, according to the convergence and divergence of manufacturing capacities, the intensity of such practices and those applying them change. The analysis of multilateralism focuses on the level of international cooperation while recognizing that the proliferation of regional trade agreements (RTA) and the attempts to create megaregional blocs are affecting trade governance.

By emphasizing the link between manufacturing outputs and the trade policy choices of the actors concerned, it is argued that trade structure affects their decisional strategies. This structure is providing them with distinct/similar bargaining powers and a ‘coercive advantage’ to bring others to follow one’s terms. The article covers the evolution of multilateralism and historical antecedents of trade war; the current structure of the merchandise trade between the US, the EU and China and how they interpret multilateralism through their use of the dispute settlement mechanism of the WTO. Answers to the following questions will develop the main argument of the paper: Is multilateralism incompatible with international trade? Are unilateralism and multilateralism mutually exclusive if these leading economies apply unilateral strategies, seek bilateral arrangements, or bargain to oblige others to concede while using mechanisms of multilateralism at the same time?

7 ‘Conciliatory nation’ and ‘provocative strategy’ terms were used by Raymond Dacey in his game-theoretical analysis of fair trade between hegemony and others. Against the hegemonic power that plays with the preferences of “bully game”, conciliatory nations may alter the conditions of the game and “induce fair terms of trade”. When using tit-for-tat strategy the existence of several provocative strategies may force the “bully” to accept cooperation based on reciprocity. Raymond Dacey, “Inducing Fair Trade out of Hegemonic Trade”, *Synthese*, Vol. 100, No 3, 1994, p. 497-504.

8 Robert Axelrod, *The Evolution of Cooperation*, New York, Basic Books, 1984, p. 42.

9 Handley J.K. Carballo and N. Limaõ, “Trade Cold Wars and the Value of Agreements During Crises”, VoxEU, March 16, 2018, cited by Peter van Bergeijk, *Deglobalization 2.0 Trade and Openness During the Great Depression and the Great Recession*, Cheltenham and Northampton, Edward Elgar Publishing, 2019, p. 95.

Historical Antecedents of Trade War

This section focuses on whether the evolution of the production structures of the US, the EU and China and their willingness to cooperate/to defect in respecting a rules-based international trade are interlinked. It starts with configuring the evolution of multilateral trade governance and then proceeds to observe in this framework whether their trade policies and understanding of multilateralism change or not according to what and how they produce. It does not intend to summarize their respective economic histories. However, it would be useful to consider the evolution of their economies and exchange relations to understand that war and cooperation are intrinsic to international trade.

The historical analysis is based on data on the evolution of production and trade structures in China, US and Europe since 1860, the year when the British-French bilateral trade agreement was signed, which marks the first adoption of the Most Favored Nation (MFN) clause as the main pillar of the international trade system. The Great Depression year of 1929 is selected since the US chose to close its domestic market by means of the United States Tariff Act of 1930 (also known as the Hawley-Smoot Tariff Act) and analysts have emphasized similarities between this period and current trade collapse after the Great Recession in 2008.¹⁰ The years of 1948, 1986, 1995 and 2001 correspond to decisive moments of international trade regulation: the coming into force of GATT, the launching of the Uruguay Round, the creation of the World Trade Organization (WTO) and the membership of China in the WTO.

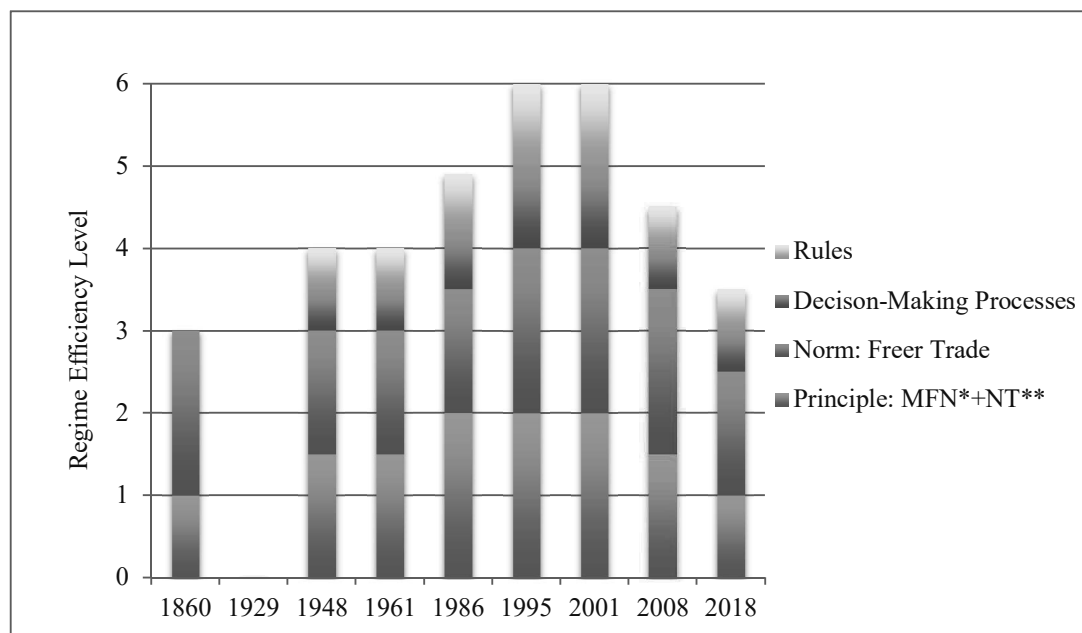
Trade Battlefield: The Multilateral Trade System

The long-term assessment of the content and limits of multilateralism in international trade assumes that the evolution of international trade regulation could be explained in terms of international regime efficiency, using the elements presented in Stephen Krasner's canonical definition:¹¹ principles, norms, rules and decision-making processes. The adoption of the principle and norm that are the fundamental and immutable elements of institutionalized collective action is completed by changeable rules and decision-making procedures that ensure and monitor the harmonization of the behavior of the parties. Based on this hierarchical status of elements, it has been accepted that an efficient regime, on a scale of 1 to 6, would require all four elements with different weights: The principles and norms, being superior requirements of the collective action would be respectively equal to 2 if fully interiorized. The rules and decision-making procedures will each have 1 as their value if fully respected and implemented. Therefore a perfectly functioning regime would be equal to or close to 6. A regime's framework and participants' degree of compliance vary depending on their expectations and the international environment. How different elements of an international trade regime have evolved since 1860 and the turning points in multilateralism are presented in Figure 1.

10 Triggering the 'Deglobalization 1.0' and 'Deglobalization 2.0' according to van Bergeijk, van Bergeijk, *Deglobalization 2.0*, p. 51-54.

11 Stephen Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables", Stephen Krasner (ed.), *International Regimes*, Ithaca and London, Cornell University Press, 1983, p. 1-22.

Figure 1. International Trade Regime Efficiency between 1860-2018



* Most Favored Nation

** National Treatment

The Cobden-Chevalier Agreement of 1860 between Great Britain and France laid the foundations of the current system of international trade regulation. Great Britain played the role of the hegemonic power and provided the international trade system of the 19th century, based on free trade and the MFN clause. In Figure 1, this evolution is represented by 3. Around 1929, in the pre-crisis period and afterwards, there was no cooperation for rules-based trade because of the ‘trade collapse.’¹² That equals 0 in terms of regime efficiency.

After the coming into force of GATT in 1948, the regime is progressively (re) constructed on the multilateral basis. According to Stephen Krasner, between 1945 and the conclusion of the Kennedy Round in 1967, there was ‘less protectionism’¹³ thanks to trade liberalization (tariff reductions, removal of nontariff barriers, import restriction abolitions, etc). The US has become the hegemonic power that offered and shaped the international trade regime. Therefore, with the implementation of GATT, the MFN had been completed by the principle of national treatment (NT) rules and decision-making processes such as multilateral negotiation cycles/rounds had been made clear. The regime efficiency level of that time was around 4.

However, after the end of the Bretton Woods system, the US foreign economic policy became aggressive/predatory, according to John Conybeare, who theorized trade war and also the decline of US hegemonic power. Correspondingly, Robert Gilpin linked the collapse of international commercial

¹² van Bergeijk, *Deglobalization 2.0*, p. 18.

¹³ Stephen Krasner, “State Power and the Structure of International Trade”, *World Politics*, Vol. 28, No 3, 1976, p. 317-347; Karen A. Mingst and Jack L. Snyder, *Essential Readings in World Politics*, 2nd Edition, New York, W.W. Norton&Company, 2004, p. 416.

and monetary regimes to the decline of the hegemonic power of the US, which had constructed them.¹⁴ Multilateralism has become secondary whenever competition has increased, starting from the 1970s onward. Mainly, the unilateralism of the US forced bilateral arrangements with European countries and Japan,¹⁵ while also prevailing over multilateralism since the 1980s. At the beginning of the Uruguay Round, the GATT involved 123 contracting parties; beside the competition and conflicts of interest between the US, Western Europe and Japan, newly industrialized countries were challenging the leading position of these economies. On the other hand, several trade-related areas were codified and integrated into the legal framework at the end of this round, which increased the efficiency of the regime (level 5).

The introduction of a two-step dispute settlement system with panels of the Dispute Settlement Body (DSB) and the Appellate Body to carry out the function of sanctioning of a regime has become possible with the establishment of the WTO in 1995 (the point where a complete regime is set, this corresponds to level 6 in our evaluation scale). The accession of China in 2001 was also a crucial moment concerning the enlargement of the regime by integrating a large non-market economy into the international system of trade.¹⁶ Nevertheless, the Doha Round (2001-) failed to resolve problems such as market access, and this was a sign of the lack of shared expectations of the regulation of trade among the participants. Unilateralism and the bilateral bargaining of great powers became efficient tools in terms of maximizing gains, especially afterwards 2008, more than what they could expect to win by staying within the limits of ‘reciprocity’¹⁷ and the MFN clause because the latter “dilutes the ability of a powerful country to capture the gains from pressuring bargaining partners to lower their tariffs”.¹⁸ Therefore, the efficiency of the regime progressively decreased (from level 4,5 to 3,5); while the institutional structure remained intact, fundamental elements (norm+principles) have been eroded with more protectionism and less common goals.

Is multilateralism under such conditions incompatible with international trade? This investigation requires evaluating how the American, European and Chinese economies evolved and interacted during the same period in order to detect coincidences between the periods of increased/

14 For an overview of the decline of US hegemonic power, see John Conybeare, *Trade Wars The Theory and Practice of International Commercial Rivalry*, New York, Columbia University Press, 1987; Robert Gilpin, *The Political Economy of International Relations*. Princeton, Princeton University Press, 1987, p.90; Charles P. Kindleberger, *The World in Depression 1929-1939 (revised and enlarged edition)*, Berkeley and Los Angeles, California, University of California Press, 1986.

15 The voluntary export restriction/restraint (VER) arrangements between the US and Japan (1981-1994) on automobiles are a good example. A VER arrangement means “the exporting country agrees to limit the quantity of specific exports below a certain level to avoid the imposition of mandatory restrictions by the importing country”. OECD, “Glossary of Statistical Terms”, <https://stats.oecd.org/glossary/detail.asp?ID=2882> (Accessed 3 September 2019).

16 As a ‘recently acceding member’, China had to accept WTO-plus obligations with a monitoring process for the first 10 years of its access (Transitional Review Mechanism). For example, its accession documents included a text on non-discrimination for foreign individuals and enterprises and foreign-funded enterprises, which is still a problem in the context of trade war. WTO, “Handbook on Accession to the WTO Chapter 5”, https://www.wto.org/english/thewto_e/acc_e/cbt_course_e/c5s1p1_e.htm (Accessed 12 January 2020).

17 The concept of reciprocity determines the American approach to multilateralism and also their definition of ‘unfair’ trade. In the 1980s and today, American administrations have demanded strict (full level) reciprocity in terms of trade flows, the trade balance, and market access for an international trade regime to be acceptable to them. Daniel C. K. Chow and Ian Sheldon, “Is Strict Reciprocity is Required for Fair Trade”, *Public Law and Legal Theory Working Paper Series*, No 454, 27 August 2018, p. 3, and 28, https://aede.osu.edu/sites/aede/files/imce/images/SSRN-id3237796_0.pdf (Accessed 17 January 2020).

18 Aadithya Mattoo and Robert W. Staiger, “Understanding Trade Wars”, Meredith A. Crowley (ed.), *Trade War. The Clash of Economic Systems Endangering Global Prosperity*, A VoxEU.org eBook, CEPR Press, May 2019, p. 33-42.

decreased cooperation and the changes in the economic capacities of these actors in terms of manufacturing output.

Diverging Economic Paths

The US, EU and China did not have parallel trajectories in the history of the global economy. Robert C. Allen's analysis¹⁹ of the distribution of world manufacturing (based on the work of Paul Bairoch²⁰) shows how the shares of the rivals in the global manufacturing outcome of today's trade war have shifted between 1750-2016. As competition between Western Europe and North America grew since the industrial revolution, China progressively gained critical production capacity, first in terms of outcome, then in product sophistication, which triggered protectionist reactions from the US and the EU. Increased competition is observed when their production capacities have become quantitatively closer (for example, among China, Western Europe and the UK around 1860, Western Europe and Northern America around 1900, between 1973-2006 or among China, Western Europe+UK and North America from 2006 onwards) and the level of sophistication of the industries converged.

It is worth emphasizing that China "re-emerged" as a large global producer at the end of the 20th century. Van Bergeijk refers to the historical statistics of Maddison to remind us that the Chinese share of world production was around a quarter until the 18th century and the country kept a similar share until the 19th century. Afterwards, it lost its position to Great Britain, who was replaced by the US after World War II.²¹ This transformation resulted from the "Great Divergence" that took place after the Industrial Revolution and defined the international division of labor in the 19th century. During the 1880s, China, the US and Western European countries went through different specialization processes. China became an exporter of raw materials like tea and silk. The US was exporting/re-exporting agricultural products and also manufacturing industry products mostly to Great Britain, Ireland and to nearby colonies.²² European countries - Great Britain and Belgium in the first place - achieved high manufacturing industry outputs, developed their iron and steel production capacities and adopted economic modernization strategies in parallel with bilateral trade agreements, starting with the agreement between Great Britain and France in 1860. During this period, China was integrated into the international market by force, following the two Opium Wars and the treaties of Nanjing (1842) and Tianjin (1858). Concessions obtained by Great Britain were also accorded to the US with the Treaty of Wanghia (1844).²³

19 Robert C. Allen, "Lessons from History for the Future of Work", *Nature International Weekly Magazine of Science*, Vol. 550, No 7676, 18 October 2017, https://www.nature.com/news/lessons-from-history-for-the-future-of-work-1.22825?WT.mc_id=TWT_NatureNews&sf123317062=1 (Accessed 11 September 2018).

20 Paul Bairoch, "International Industrialization Levels From 1750 to 1980", *Journal of European Economic History*, Vol. 11, No 2, 1982, p. 269-333.

21 Agnus Maddison, *Monitoring the World Economy*, Paris, OECD Development Center, 1995, <http://www.ggdc.net/maddison/oriindex.htm> (Accessed 8 January 2020) and van Bergeijk, *Deglobalization 2.0*, p. 137.

22 Robert E. Lipsey, "US Foreign Trade and the Balance of Payments". *National Bureau of Economic Research Working Papers*, Cambridge, 1994, <https://www.nber.org/papers/w4710.pdf> (Accessed 25 April 2019).

23 Stratfor, "Us-China Trade Timeline 1785-2008", 12 December 2007, <https://worldview.stratfor.com/article/us-china-trade-timeline-1784-2008> (Accessed 17 April 2019).

Table 1. GDP Growth Rate and the Percentage of Merchandise Trade in the GDP of China, the USA and Western Europe

		1820-1870	1870-1913	1913-1950	1961	1986	1994-1995	2001	2008	2017-2018
Growth (GDP) Rate (%)	China	-0.37	0.56	-0.02	-27.3	8.94	10.949	8.34	9.654	6.9
	USA	4.20	3.94	2.84	2.3	3.512	2.719	0.976	-0.292	2.273
	Europe	1.65	2.10	1.19	5.594	2.667	2.682	2.204	0.483	2.449
Merchandise Trade (% of GDP)		1870	1929	1950						
	China	0.7	1.7	1.9	7.368	24.53	38.236	38.051	55.745	33.546
	USA	2.5	3.6	3.0	6.567	13.277	17.688	17.966	23.487	20.403
	Europe	10.0	13.3	9.4	30.388	42.094	44.789	55.113	63.741	67.706

Source: A.Maddison²⁴

Source: World Bank Data ²⁵

The 1929 crisis, the Great Depression, is one of the culmination points of protectionism in the world economy. Neomercantilist strategies were applied to start from the end of the 19th century due to ‘hegemonic wars’,²⁶ -rivalry in sharing world markets and accessing production factors. The decrease of production and trade in merchandise at that time was parallel with the high tariff levels and nationalist economic policies. The current trade war measures of the US are frequently compared with those adopted in 1930 within the framework of the Smoot-Hawley Act to address the crisis, by protecting the domestic market and decreasing imports. The consequences of those measures raised controversial interpretations about how much they negatively affected American exports²⁷ and how they changed the shape of the international trade system. Tit-for-tat strategies in the form of strict trade balance requirements, similar beggar-thy-neighbor duties and regional blocs became decisive instruments. The return to free trade for the US became possible with the Reciprocal Trade Agreements Act of 1934, but that was not the case for European countries facing fascism.

Between 1948 and the 1970s, the American and Western European economies became gradually interdependent, thanks to the increase in foreign investments and also the positive effects of the US Trade Expansion Act of 1962. Therefore, what could be the most efficient period of collective action to establish free trade regulations started. Competition between the US and the European Economic Community (EEC) members had risen with the progressive accomplishment

24 Exports and GDP at 1990 prices. Agnus Maddison, *Monitoring the World Economy*, OECD Development Center, 1995, http://www.ggdc.net/maddison/Monitoring_the_world/1995_Monitoring_the_World/TextTables/tables_chapter2.pdf (Accessed 4 January 2020), Agnus Maddison, *The World Economy. A Millennial Perspective*, OECD Development Center, 2001, p. 262.

25 The World Bank Data, “GDP Growth (Annual %)”, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG> (Accessed 20 April 2019) and “Merchandise trade (% of GDP)”, <https://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS?end=2018&locations=CN-US-EU&start=1960&view=chart> (Accessed 2 September 2019).

26 Robert Gilpin, *The Political Economy of International Relations*, p. 55 and “The Theory of Hegemonic War”, *The Journal of Interdisciplinary History*, Vol. 18, No 4, 1988, p. 591-613.

27 “Smoot-Hawley Tariff Act”. *Encyclopaedia Britannica*, <https://www.britannica.com/topic/Smoot-Hawley-Tariff-Act> (Accessed 17 April 2019).

of regional economic integration and the crisis of falling rate of profit in the 1970s. European iron and steel production, as well as agriculture, were and still are among the main targets of US criticism and countervailing measures. For the US, the ‘unfair’ practices of the EEC mostly stem from its subsidies mechanisms in agriculture and Airbus production, plus the use of non-tariff barriers as in the case of beef hormones or genetically modified organisms. The Trade Act of 1974 (Title III - Relief from Unfair Trade Practices, Sections 301 to 310) and the Omnibus Trade and Competitiveness Act of 1988 have been used by the US to “expand American participation in international trade” and to compensate losses from such ‘unfair’ competition arrangements if they disadvantage American labor and industry.²⁸ Despite these measures, the American trade deficit in front of the EU has reached significant rates: 15% in 2001, 11,5% in 2008, 21% in 2018.²⁹

Converging Economic Paths and the Chinese Challenge

China joined the competition at the end of the 1970s through the implementation of the “Four Modernizations” in industry, agriculture, science and technology; its trade volume rose quickly. The country became the US’s largest communist trading partner in the 1970s, although the mutual recognition of MFN status only took place in 1980, subject to annual review and renewal (requiring Congressional approval) in the US due to the amendment of the Trade Act of 1974.³⁰ Before China joined the WTO in 2001, the US Congress granted China the status of Permanent Normal Trade Relations (PNTR) by means of the US-China Relations Act of 2000.³¹ Cumulative trade between them grew first with trade surpluses in favor of the US, but the trend reversed after a few years. In 1986, the American trade deficit with China in merchandise started at -1,664,7 million dollars.³² America’s rate of trade deficit in goods with China kept on increasing: Almost 20% in 1995 and 2001, 32% in 2008 and 52% in 2018.³³ Presently, the famous section 301 of the Trade Act of 1974 constitutes also the basis of Trump administration’s measures levied on Chinese imports.

China became the second biggest trading partner of the EU, as well as one of its major providers of foreign direct investment, during the last 15 years.³⁴ Their economic ties have grown since the

28 Office of the Legislative Counsel of the U.S. House of Representatives, “The Trade Act of 1974 [Public Law 93–618, as amended] [as amended through P.L. 115–141, enacted March 23, 2018]”; Section 301, p.191-197, <http://legcounsel.house.gov/Comps/93-618.pdf> and H.R. 4848 (100th): Omnibus Trade and Competitiveness Act of 1988, <https://www.govinfo.gov/content/pkg/STATUTE-102/pdf/STATUTE-102-Pg1107.pdf> (Accessed 12 April 2019).

29 Author’s evaluation, based on data from the United States Census Bureau, “Trade in Goods with European Union”, <https://www.census.gov/foreign-trade/balance/c0003.html> (Accessed 21 April 2019).

30 “China’s Most-Favored Nation Status Renewed”. *CQ Almanac 1994*, <https://library.cqpress.com/cqalmanac/document.php?id=cqal96-1092700> (Accessed 17 April 2019).

31 United States Congress, “H.R.4444 - To Authorize the Extension of Nondiscriminatory Treatment (normal trade relations treatment) to the People’s Republic of China, and to Establish a Framework for Relations between the United States and the People’s Republic of China”, <https://www.congress.gov/bill/106th-congress/house-bill/4444> (Accessed 23 January 2020).

32 United States Census Bureau - “Trade in Goods with China”, <https://www.census.gov/foreign-trade/balance/c5700.html> (Accessed 17 April 2019).

33 Author’s estimation, based on the data of the United States Census Bureau, “Trade in Goods with China”, <https://www.census.gov/foreign-trade/balance/c5700.html> (Accessed 17 April 2019).

34 For an extensive perspective on how Chinese investments grew in Europe, see Peter J. Williamson, “Chinese Acquisitions in Europe: Absorptive Capacity and Impacts on Competitive Advantage”, *Uluslararası İlişkiler*, Vol. 13, No 49, 2016, p. 61-83 and Ruth RIOS-MORALES, Louis BRENNAN and Max SCHWEIZER, “An Assessment of Chinese Foreign

creation of the EU-China Comprehensive Strategic Partnership in 2003. As for the US, the volume of bilateral trade with China rose from 2008 to 2019, with large trade deficits in merchandise to the detriment of the EU, from -170,801 to 184,791 billion Euros.³⁵

Table 2. Current Shares of China, the USA and the EU in the World Manufacturing and Industry

		2001	2008	2018
Manufacture /World (%)	China	.*	14,452	28,249
	USA	25,506	17,653	16,533**
	EU	25,523	27,024	18,948
Industry /World(%)	China	6,999	12,057	23,522
	USA	25,371	17,147	16,433**
	EU	24,734	25,187	17,556
High technology exports (% of manufactured exports)	China	-.***	29,389	30,887**
	USA	-.***	28,971	18,896
	EU	-.***	15,935	16,273

* Data for China start from 2004

** Most recent value available (2017)

*** Data start from 2007

Source: World Bank Data³⁶

The Chinese explanation for this situation comes from the shift of comparative advantage for labor-intensive products. For example, according to Justin Yifu Lin, the US “lost its comparative advantage half a century ago” against low wage countries, starting with the Eastern Asia economies and then China.³⁷ Also, China is one of the best performing countries in terms of innovation, continuously improving its position according to the World Intellectual Property Organization’s (WIPO) Global Innovation Index (GII). For instance, the 2018 report shows that China’s overall GII score is 17, and the country is at the 5th place in knowledge and technology outputs followed by the USA (6th rank). Germany and France are respectively at the 10th and 19th position³⁸ High technology products constitute, therefore, the core of the competition between them, even a case of national ‘security threat’³⁹ for the US. The American restrictions imposed over Huawei Technologies, the Chinese

Direct Investment in Switzerland”, *Uluslararası İlişkiler*, Vol. 13, No 49, 2016, p. 85-105.

35 Eurostat, “Extra-EU Trade by Partner”,

<https://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do> (Accessed 17 April 2019).

36 World Manufacturing and Industry Shares of the US, the EU and China are author’s evaluation based on the World Bank Data, “Industry (including construction), value added (current US\$) - United States, China, European Union, World” <https://data.worldbank.org/indicator/NV.IND.TOTL.CD?locations=US-CN-EU-1W> and “Industry (including construction), value added (current US\$) - United States, China, European Union, World”, <https://data.worldbank.org/indicator/NV.IND.MANF.CD?end=2018&locations=CN-EU-US-1W&start=2002> (Accessed 12 May 2020); “High Technology Exports (% of manufactured exports)- China, United States, European Union”, <https://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS?locations=CN-US-EU&view=chart> (Accessed 2 September 2019).

37 Justin Yifu Lin, “High Tariffs on Chinese Imports Would Weaken America”. *Project Syndicate*, March 28, 2018, <https://www.project-syndicate.org/commentary/trump-import-tariffs-on-china-will-backfire-by-justin-yifu-lin-2018-03?barrier=accesspaylog> (Accessed 2 April 2019).

38 Cornell University, INSEAD, and the WIPO, *Global Innovation Index 2018: Energising the World with Innovation*, Ithaca, Fontainebleau, and Geneva, p. 241, 252, 255, and 338.

39 In fact, in 2012 US espionage allegations against Huawei and ZTE Corporation became apparent after a US congressional panel concluded that equipment produced by these companies have ‘backdoor’ applications that allow the Chinese

telecom giant, and the arrest of Huawei CFO at the end of 2018 are significant consequences of a “new era of great power competition.”⁴⁰

The rising competitiveness between China and other leading economies stems from what Richard Baldwin called “The Great Convergence”: the “ICT (information, communication, technology) revolution”, that started at the end of the 1980s, and that gave way to the ‘New Globalization’. While the “countries [that were] called twenty years ago ‘industrialized nations’ have seen a rapid fall in the number of jobs and value-added shares in the manufacturing sector,” manufacturing output of some developing nations, starting with China, “has soared”.⁴¹

Indeed, this convergence is also related to the strategic interventions of states. The EU and China have adopted strategic plans since 2006. The EU strategy called “Global Europe: Competing in the World” was launched in 2006. According to this document, the EU encourages multilateralism but also bilateral agreements by choosing its free trade partners according to their economic size, their growth rate and their level of protectionism vis-a-vis European exports.⁴² China issued a strategic plan called “Made in China” in 2015, that aimed at developing its high-tech sectors in order to become “dominant in global high-tech manufacturing”, and was considered to be a “threat to global trade”.⁴³ Donald Trump’s trade agenda can be seen as a way of responding to these initiatives.

Thus, the cooperation and trade may not necessarily coincide; implementing rules together and trading are not always simultaneous or necessarily linked. There may be a lag between the two processes.

Trade Structure and Trade War

How should one interpret the impact of increasing competition on protectionist measures/retaliations that the US, the EU and China have adopted since 2018? This question requires a closer look at the trade structure between them, which means the composition of product groups of the trade flows and the state of the trade balance concerning the US.

The analysis model used by Conybeare and then taken up in the work of Ka Zeng inspired the study on the composition of trade.⁴⁴ How these two authors analyzed the competitiveness and

government to access data from customers worldwide. Nathan Reiff, “Why Huawei Is in the Middle of the US-China Trade War”, *Investopedia*, <https://www.investopedia.com/why-huawei-is-in-the-middle-of-the-u-s-china-trade-war-4687522> (Accessed 28 August 2019).

40 Edward Wong, “US Versus China: A New Era of Great Power Competition, but Without Boundaries”, *The New York Times*, [nytimes.com/2019/06/29/world/asia/united-states-china-conflict.html](https://www.nytimes.com/2019/06/29/world/asia/united-states-china-conflict.html) (Accessed 1 July 2019).

41 Richard Baldwin, *The Great Convergence. Information Technology and the New Globalization*, Cambridge and London, The Belknap Press of Harvard University Press, 2016, p.1, 86-87, and 92.

42 Commission of the European Communities, “Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions. Global Europe: Competing In The World. A Contribution to the EU’s Growth and Jobs Strategy {SEC(2006) 1228} {SEC(2006) 1229} {SEC(2006) 1230} /* COM/2006/0567 final */”, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3Ar11022> (Accessed 27 December 2019).

43 James McBride and Andrew Chatzky, “Is ‘Made in China 2025’ a Threat to Global Trade?”, 13 May 2019, Council on Foreign Relations, <https://www.cfr.org/backgrounder/made-china-2025-threat-global-trade> (Accessed 27 December 2019).

44 Conybeare, *Trade Wars*, p.47-48 cited by Ka Zeng, *Trade Threats, Trade Wars: Bargaining, Retaliation, and American*

complementarity of trade may prove inadequate to grasp the complexity of the global economy of 2018. One may assume that in the era of ‘made in the world’⁴⁵/Global Value Chain (GVC) and increased intra-industry trade, referring to competitive advantages is prone to criticism. Nevertheless, such a standpoint is still helpful for understanding why countries cooperate with others and send them occasionally protectionist threats. The credibility of the threat is linked, among several factors, to the bargaining capacity of these actors based on ‘coercive advantage’.

In this case, first, one should try to identify convergent/competitive sectors and analyze their place in the current framework of trade war. It is also necessary to take a closer look at the export/import balances of product groups targeted by the American measures. Second, one should explore prior and recent disputes brought to the DSB by the US, the EU and China show signs of the current rupture and return to bargaining strategies.

Converging Economies as a Driver of Unilateralism

The complementarity/competitiveness assessment is clear: When countries export similar products, they have competitive trade, and when they export different ones, they have complementary trade. One may determine this by checking the number of overlapping product groups in export-import lists of country pairs. For instance, Zeng studied the 1996 data of top 20 ‘commodities’ (on the SITC⁴⁶ 3 level) in the exports and imports of the US and found 12 overlaps with the UK, 11 with Germany, eight with France (biggest economic partners in the EU) and only two with China.⁴⁷ Thus she concluded that trade between the US and European countries was competitive while trade between the US and China was more likely to be complementary at that time.

The typology of goods is actually much more sophisticated. Classifications used by the countries and harmonized by the World Customs Organization (WCO) include subdivisions of products represented by codes of up to 10 digits. An analysis of trade between the US, the EU and China in a sub-subdivision scale beyond six digits does not provide meaningful data on the similarities and differences of traded goods. For example, the list of the 20 most traded products between the EU and the EU on an eight-digit basis does not include overlaps. Similarities are detectable at the level of five digits, and in this case, it would be more prudent to mention groups of products/sectors. This is nevertheless still useful for determining the degree of convergence of the economies.

The comparative study⁴⁸ of the 20 product groups most traded between the US, the EU and China using NAICS⁴⁹ and SITC 5-level statistics of 2018 has shown that the competitiveness between the US and EU was higher than their competitiveness with China.

Coercive Diplomacy, University of Michigan Press, 2004, p. 42-43.

45 Emily J. Blanchard, “Trade Wars in the GVC Era”, Meredith A. Crowley (ed.), *Trade War. The Clash of Economic Systems Endangering Global Prosperity*, A VoxEU.org eBook, CEPR Press, 2019, p. 57-63.

46 SITC: Standard International Trade Classification

47 Zeng, *Trade Threats*, p. 44.

48 Data file can be accessed via Harvard Dataverse system: <https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/6KBBJO>

49 NAICS: North American Industry Classification System

Table 3. Similarities in Top 20 Export-Import Product Groups between the US, the EU and China (2018)

Trade Partners	Number of Overlaps	Product Groups
US-EU	14	Aircraft and associated equipment Pharmaceutical and medicinal products Navigational /measuring/medical/control instruments Medical equipment and supplies Special classification provisions Petroleum refinery products Other basic organic chemicals Used or other second-hand merchandise Autos and light duty motor vehicles Jewellery and silverware Semiconductors and other electronic components Engines, turbines and power transmission equipment Other general purpose machinery Industrial machinery
US-China	6	Computer equipment Semiconductors and other electronic components Navigational/measuring/medical/control instruments Industrial machinery Other basic organic chemicals Other general purpose machinery
EU-China	1	Parts and accessories of vehicles

Source: USA Trade Online and Eurostat⁵⁰

The competitive nature of trade between the EU and the United States has increased, while the relative complementarity of trade between these two and China has continued since the mid-1990s in the context of differentiation of the product groups traded. Also, in the framework of current trade war and product groups hit by the US measures, it is worth seeing that some of them are among the overlapping ones: aircraft is one of the competitive merchandise groups in the US-EU trade. Pharmaceuticals and medicines, telecommunication equipment, and household furniture are subject to restrictive measures by the US against the EU and China. Steel and aluminum are not among the most traded goods between the US and the EU, although this is the case for China.

These overlaps and the competitiveness should also be analyzed, taking into account China's trade surplus. Unbalanced trade, even in the case of complementary trade (expected to be more cooperative), is a driver of conflict. The increase in American tariffs for iron and steel, aluminum products and other measures subsequently declared against China and the EU must be seen within the context of the following table:

⁵⁰ Author's compilation, <https://usatrade.census.gov/data/Perspective60/Dim/dimension.aspx?ReportId=7028> (Accessed 17 January 2020); "International Trade in Goods", <https://ec.europa.eu/eurostat/web/international-trade-in-goods/data/database> (Accessed 27 January 2020).

Table 4. Export and Import Amounts of Selected Product Groups Targeted by US Measures in 2018 (US \$)

Product Group	Partner	Exports	Imports
Iron and Steel	China	557.874.959	650.914.559
	EU	1.000.027.562	5.558.187.400
Articles of iron and steel	China	723.703.836	13.193.989.751
	EU	2.152.843.213	6.047.363.386
Aluminum and articles thereof	China	1.009.734.242	2.827.296.329
	EU	860.962.349	2.299.408.726
Electric machinery	China	12.879.899.567	151.978.117.423
	EU	24.097.276.991	28.119.967.536
Motor vehicles	China	9.381.113.574	17.324.261.303
	EU	16.439.096.431	55.887.576.532
Aircraft, spacecraft and parts thereof	China	18.221.912.448	550.392.703
	EU	46.565.123.640	14.189.544.089

Source: USA Trade Online⁵¹

A more detailed (up to 10-digit basis) assessment⁵² of export and import amounts of some products targeted by US Section 301 investigations since 2018, has revealed that the US deficit concerning iron and steel, aluminum products, batteries, electric products, electric and diesel vehicles, aircraft parts with China is noticeable. In American-European trade, the US is still at a disadvantage concerning iron and steel, aluminum products, electrical machines, cameras, solar cells, diesel vehicles, helicopters, airplanes and airplane parts.

The US issued four lists against China⁵³ between 2018 and 2019, covering all products on eight-digit HTS (Harmonized Trade Schedule of the US) basis and selective lists against the EU and France.⁵⁴ Regarding China, tariff increases have been presented as 'national security' requirements in response to the state-sponsored capitalism in this country, 'forced technology transfer' (restrictive

51 Author's compilation, <https://usatrade.census.gov/data/Perspective60/Browse/BrowseTables.aspx> (Accessed 26 April 2020).

52 Data file can be accessed via Harvard Dataverse system: <https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/6KBBJO>

53 Office of the US Trade Representative, "China Section 301-Tariff Actions and Exclusion Process", <https://ustr.gov/issue-areas/enforcement/section-301-investigations/tariff-actions> (Accessed 29 April 2020)

54 Office of the US Trade Representative, "Initiation of Investigation; Notice of Hearing and Request for Public Comments: Enforcement of U.S. WTO Rights in Large Civil Aircraft Dispute", https://ustr.gov/sites/default/files/enforcement/301Investigations/Preliminary_Product_List.pdf; Office of the US Trade Representative, "Notice of Hearing and Request for Public Comments: Enforcement of U.S. WTO Rights in Large Civil Aircraft Dispute", https://ustr.gov/sites/default/files/enforcement/301Investigations/Notice_for_Additional_Products.pdf (Accessed 29 April 2020) (Revised in February 2020 by the "Notice of Modification of Section 301 Action: Enforcement of U.S. WTO Rights in Large Civil Aircraft Dispute", https://ustr.gov/sites/default/files/enforcement/301Investigations/Notice_of_Modification_of_Section_301_Action_Enforcement_of_U.S._WTO_Rights_in_Large_Civil_Aircraft_Dispute.pdf (Accessed 29 April 2020); Office of the US Trade Representative, "Notice of Determination and Request for Comments Concerning Action Pursuant to Section 301: France's Digital Services Tax" https://ustr.gov/sites/default/files/Notice_of_Determination_and_Request_for_Comments_Concerning_Action_Pursuant_to_Section_301_France%E2%80%99s_Digital_Services_Tax.pdf (Accessed 29 April 2020).

foreign direct investment requirements) and intellectual property ‘theft’ committed by Chinese companies. Mostly manufactured goods were targeted: aircraft parts, solar panels, batteries, flat-panel televisions, medical devices, satellites, non-electric bikes, animal medicine, juvenile bedding devices, air conditioners, dehumidifiers, and car tires. The US also threatened to increase taxes on other EU products such as foodstuffs, textiles, motorcycles and even started to consider additional tariffs on fuselages and landing gear if used in civil new aircraft, as well as helicopters if produced by the UK, Spain, France or Germany. China and the EU retaliated (they both notified the WTO of their measures, however) respectively by taxing agricultural products and bourbon whiskey, orange juice, motorcycles and they declared they could retaliate with similar amounts of duties on American products.⁵⁵ The parties were also conducting consultations/negotiations while threatening each other with additional measures.

‘Coercive Advantage’ and Bargaining

Trade war, in this case, is linked to these economies’ degree of convergence and also to their threat capacity. These elements provide them with different bargaining capacities. A ‘coercive advantage’ -capacity to force the other to get aligned with its interests- as in the case of the US using *linkage* efficiently, for example, when the country links the opening of its market to China’s commitments on respecting intellectual property rights. Alternatively, a ‘laggard’ advantage, like that of China, adopting a ‘provocative’ strategy from the US perspective by using alternative tit-for-tat methods: refusing to comply as long as related issues constrain the other, i.e. the trade balance deficit and using “devaluation to gain an unfair competitive advantage in international trade”,⁵⁶ limitation of Chinese companies’ activities in the US, or blaming and shaming strategies, like in the case of the White Paper issued in June 2019, that accused the US of ‘backtracking’ during consultations.⁵⁷ The two parties went through moments of calm and escalation in their trade disputes, imposing or delaying tariffs and adding or removing items from their lists of targeted products. In January 2020, they signed a preliminary or “Phase I” deal⁵⁸ on intellectual property rights, trade secret protection and penal responsibility issues to reduce their conflict, according to which the final tariff became ineffective.

For China, seemingly the American threat (Section 301 investigation) is credible and potentially harmful to its trading capacity. Therefore, the Thomas Bayard and Kimberly Elliott study mentioned

55 The EU list is available at: http://trade.ec.europa.eu/doclib/docs/2018/may/tradoc_156909.pdf (Accessed 19 September 2019); the Chinese lists are available at:

https://legacy.trade.gov/mas/ian/tradedisputes-enforcement/retaliations/tg_ian_002094.asp#P40_4586 (Accessed 19 September 2019).

56 After the Central Bank of China decided to devalue the renminbi in August 2018, the US Department of Treasury, along with Germany and Japan, declared China to be a ‘Currency Manipulator’. Before the January 2020 deal, China had been removed from the list of currency manipulators. US Department of Treasury Office of the International Affairs, *Report to the Congress: Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States*, p.2, <https://home.treasury.gov/system/files/136/20200113-Jan-2020-FX-Report-FINAL.pdf> (Accessed 24 January 2020).

57 The State Council - The People’s Republic of China, “China’s Position on the Economic and Trade Consultations”, http://english.www.gov.cn/archive/white_paper/2019/06/02/content_281476694892692.htm (Accessed 3 September 2019).

58 Office of the US Trade Representative, “Economic And Trade Agreement Between The Government Of The United States Of America And The Government Of The People’s Republic Of China”, https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Economic_And_Trade_Agreement_Between_The_United_States_And_China_Text.pdf (Accessed 28 January 2020).

by Zeng,⁵⁹ is still relevant since the US is using its coercive capacity/advantage against dependent target economies using Section 301 of the Trade Act of 1974 in “opening overseas markets”. Thus, the US has a coercive advantage compared to China.

The US and the EU reached a political agreement in July 2018,⁶⁰ and the two parties decided to work to cut out reciprocal duties on industrial goods, mainly cars and automobile parts. This situation resulted from competitive/symmetrical trade structures; their coercive advantages are similar.

For the EU, China’s restrictive foreign investment strategies (technology transfer requirement), and social and environmental dumping practices have to be adjusted; China accepted European demands for national treatment for foreign investors. Recently the European Commission described China as an “economic competitor and [...] systemic rival promoting alternative models of governance” but also as a “cooperation” and “negotiating partner”.⁶¹ The complementary character of trade is to the advantage of the EU; however, the parties use the trade war controversy to get individually adapted to changing conditions⁶² and undertake internal structural adjustments to guarantee future gains.

If the US can initiate bargaining, and others change their strategies to take place in this scheme, one may, therefore, pose the following question: Are unilateralism and multilateralism mutually exclusive?

Distinct Conceptions of Multilateralism

Taking into account the number and subject of disputes between the three economies that have been brought to the DSB, it is clear that the US, the EU and China have systematically used the DSB mechanism, which is consistent with their commitments in compliance with multilateral trade rules.⁶³

The percentage of US-EU disputes shows that from a high level of reciprocal disputes, they moved to a relatively low level and started targeting China. For the US and the EU, the divergence of interests with China deepened from 2008 onwards. In the same way, China has learned more about using the DSB against its major trading partners.

59 Thomas Bayard and Kimberly Elliott, *Reciprocity and Retaliation in U.S. Trade Policy*. New York, Columbia University Press, 1994 cited by Zeng, *Trade Threats*, p. 33.

60 European Commission, “Joint U.S.-EU Statement following President Juncker’s visit to the White House”, https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_18_4687 (Accessed 28 January 2020).

61 European Commission- High Representative of the Union for Foreign Affairs and Security Policy- “Joint Communication to European Parliament, the European Council and the Council. EU-China A strategic outlook”, Strasbourg, 12.3.2019 JOIN(2019) 5 final, <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf> (Accessed 17 April 2019).Emilian Kavalski and Young Chul Cho compared the EU and Chinese stances on rule-based and relational governance of global affairs and noted their distinct multilateralism and multipolarity approaches as different normative powers. Emilian Kavalski and Young Chul Cho, “Worlding the Study of Normative Power: Assessing European and Chinese Definitions of the “Normal”, *Uluslararası İlişkiler*, Vol. 15, No 57, 2018, p. 49-65.

62 European Commission- High Representative of the Union for Foreign Affairs and Security Policy, “Joint Communication to European Parliament, the European Council and the Council. EU-China A strategic outlook”, 12 March 2019, <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf> (Accessed 18 December 2019).

63 Introduction of the GATT 1994&1947, Article 3 of the Dispute Settlement Understanding, https://www.wto.org/english/tratop_e/dispu_e/dsu_e.htm (Accessed 29 January 2020).

Table 5. Number of Disputes Relative to Merchandise Trade between the US, the EU and China

Complaints	WTO (1995-) /Total complaints	1995-2000	2001-2007	2008-2019
USA vs. Europe	20/123 ($\approx 16\%$)	11	6	3
USA vs. China	23/123 ($\approx 19\%$)	-	5	18
Europe vs. USA	35/102 ($\approx 34\%$)	22	9	4
Europe vs. China	9/102 ($\approx 9\%$)	-	1	8
China vs. USA	15/20 (75%)	-	2	13
China vs. Europe	5/20 (25%)	-	-	5

Source: WTO⁶⁴

The study of discord shows that disputes related to trade in merchandise between the US and the EU diminished throughout the years, while disputes over procedures, investigation methods, and compensation schemes became more substantial. Also, these three filed significant disputes relating to the current issues of discord. In the Table 6, the dispute numbers relating to subsidies on iron& steel and aluminum products, aircraft, renewable energy devices -mainly solar panels- and those on structural issues such as intellectual property rights and technology transfer are shown.

Table 6. WTO Disputes between China, the USA and the EU about the Current Trade War Issues

Cases	Disputes related to solar energy	Disputes related to steel and aluminum	Disputes related to civil aircraft	Disputes related to intellectual property rights	Disputes related to technology transfer
USA vs. Europe	-	1	2	1	-
USA vs. China	-	2	1	2	-
Europe vs. USA	-	6	3	-	-
Europe vs. China	-	2	-	-	1
China vs. USA	2	3	-	-	-
China vs. Europe	1	1	-	-	-

Source: WTO⁶⁵

Rather than going into the details of cases, identifying the distinct positions of these actors in managing their interests within the dispute settlement mechanism may be indicative of their multilateralism conception:

- ‘Revisionist/Combative multilateralism’: As for the US; the 2018 tariffs are connected with the procedures started before; however, they did not wait for rulings to be issued by the DSB. The latter only authorized the US to retaliate against the EU for subsidies in the aircraft sector. The DSB decided in favor of the US and allowed them in October 2019 to enact \$7,5 billion

64 Author’s compilation, WTO, “Index of Dispute Issues”, https://www.wto.org/english/tratop_e/dispu_e/dispu_subjects_index_e.htm (Accessed 28 April 2019).

65 Author’s compilation, Ibid.

worth of countermeasures against the EU, whose rejection of the American arguments and evidence has been declined in December 2019.⁶⁶ Second, the US blocked the mechanism by preventing the appointment of new members to the Appellate Body that they consider inefficient in insuring strict reciprocity. Moreover, the Trump administration seems wanting to return to the GATT conflict resolution system in which, states, as a defendant, could use their right to veto at any stage of the proceedings.⁶⁷

- ‘Conventional multilateralism’: The EU is following institutional correctness by going to the DSB under the conditions specified in the WTO rules and by not declaring unilateral measures unless all the stages of the dispute settlement mechanism have been completed. At the same time, the EU has maintained its subsidy practices targeted by the US and negotiated with them by claiming that this country has applied similar practices. The EU is also the actor that seems to be willing to support the continuity of the system by concluding bilateral ‘Interim Appeal Arbitration Arrangements’ in the absence of a functioning Appellate Body and integrating China and other G20 countries into its initiative to create an *ad hoc* structure against the American blockage.⁶⁸
- ‘Pragmatist multilateralism’: China went from the status of ‘rule taker’ in the dispute settlement mechanism to that of a ‘rule shaker’. That is, the country learned the rules of the multilateralism game and accepted the unfavorable decisions targeting its non-market economy procedures; observed the process by becoming a third party in various cases, by transposing its concerns and problems to the international level and demanding reciprocal transparency in trade practices.⁶⁹ For instance, China brought six cases in 2019 against U.S. protectionist measures. Otherwise, China started to pursue a ‘more aggressive’ dispute settlement strategy by making procedural claims to the Appellate Body concerning unfavorable panel reports.⁷⁰

Conclusion

This article shows that, with an extended temporal perspective, it is possible to note that the dynamics of the trade war are rather continuous and intrinsic to the trade structure, and not episodic. International trade of manufactured goods seems to be structured around strategies and practices that can correspond to cooperation and war at the same time, rather than evolving into consecutive waves of cooperation and war. Nevertheless, there are periods during which these

66 WTO, “European Communities And Certain Member States – Measures Affecting Trade In Large Civil Aircraft. Recourse to Article 21.5 of the Dispute Settlement Understanding by the European Union and Certain Member States”, https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=259388,259389&CurrentCatalogueIdIndex=1&FullTextHash=&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True (Accessed 20 January 2020).

67 Chad P. Brown, “The 2018 Trade War and the End of the Dispute Settlement as We Knew it”, Crowley (ed.), *Trade War*, p.21-31.

68 European Commission, <https://ec.europa.eu/trade/policy/accessing-markets/dispute-settlement/>; Reuters, “EU, China and 15 others agree temporary fix to WTO crisis”, <https://www.reuters.com/article/us-trade-wto/eu-china-and-15-others-agree-temporary-fix-to-wto-crisis-idUSKBN1ZN0WM> (Accessed 2 February 2020).

69 Henry S. Gao, “China’s Ascent in Global Trade Governance: From Rule Taker to Rule Shaker, and Maybe Rule Maker?”, (July 10, 2010), Carolyn Deere-Birkbeck (ed.), *Making Global Trade Governance Work For Development*, pp. 153-180, Cambridge, Cambridge University Press, 2011, SSRN: <https://ssrn.com/abstract=1941771> (Accessed 20 January 2020).

70 Ibid.

strategies and practices deviate more one from each other, such as the phases of a global crisis and convergence of economies, or overlay a little more, like phases of divergence and complementarity of economies. More precisely, economies prefer to cooperate as well as not to cooperate depending on their and others' manufacturing output capacity in the world economy and the trade structure among them.

The relationship between cooperation and trade war can be seen as a two-way road, with bargaining in the middle. It is understood that the US, the EU and China, the leading players of world trade, are using distinct bargaining capacities: When choosing between rules-based trade practices and individually favorable trade practices, the US is using its coercive advantage in the form of punitive unilateralism, the EU has a conciliatory/adaptive capacity, and China endorses a provocative/adaptive strategy in a sense used by Raymond Dacey. Self-preservationist moves and parallel dialogue efforts, agreements are indicative of this situation. Does this multi-strategic bargaining process hinder trade governance?

This article provides also a nuanced look at the nature of multilateralism in international trade. It is not an end product, but instead a process in which the actors, according to their bargaining capacity, opt for a variant of multilateralism. The absence of common expectations and intersubjective meanings of principles are decisive factors concerning multilateralism within the WTO. 'Reciprocity' is in this sense problematic and its distinct interpretations give rise to distinct conceptions of multilateralism: a revisionist multilateralism for the United States as a strict reciprocity of gains, a conventional one for the EU in the sense of common responsibilities and a pragmatist, and a responsibility-balancing multilateralism for China which seeks to respond to the punitive actions of its counterparts. Furthermore, global competition rose and induced new networks of interdependencies; this continuous transformation of trade requires new institutional apparatus with adaptive capacities and implementation. Alternatives or scenarios about this process of transformation develop around a new hegemonic configuration in the first place and the megaregional blocks and other regional agreements as the future of commercial multilateralism in the second place.

On the question of whether the decision-making power of the United States will be shared with the EU and China or if that of the other two - 'the coalition of the unwilling' in terms of van Bergeijk⁷¹ - will replace it, it is difficult to predict the most likely outcome. He estimates that the shares of the EU and China in world production (35%) can provide them with this capacity. However, the two have different short and medium-term agendas. The EU must create a bilateral free trade area with Great Britain. China maintains its strategy of interregional integration through the Belt and Road Initiative while being accused of neo-colonialism.

Regarding the two megaregional agreements, TTIP and TPP, as mentioned in the introduction, the attitude of the US has had critical effects. The first was terminated; the EU deepened its economic ties with Canada (2017) and Mexico (2018) through bilateral free trade agreements. The second was reformulated between Canada and ten Asian countries to become the 'Comprehensive and Progressive Agreement for Trans-Pacific Partnership' (CPTPP), representing 13.5% of global GDP. Globally, more than 300 RTAs are in force.

71 van Bergeijk, *Deglobalization 2.0*, p. 7, and 147.

Do such arrangements mean a collective and gradual diversion from cooperation? Rather than a completed, formal regulatory framework of free trade, we see a multispeed negotiation area with various capacities of bargaining: leading economies and other country groups alternating between competitive liberalization and assertive competition, market access facilitating policies and protectionism.