

**U.S.-CHINA RELATIONS IN THE ERA OF MULTI-POLARISM:
TRADE WAR BETWEEN THE TWO ECONOMIC GIANTS**

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ABSTRACT

The great Chinese economic progress has become a source of concern to the United States, so former U.S. President Donald Trump announced the trade war to curb and slow Chinese economic progress following the vision of the U.S. The Trump administration has highlighted economic protectionism against what he calls “unfairness.” Still, it is becoming inevitable that applying this strategy is no longer viable in current foreign policy, given that the world is no longer uni-polar and that the U.S. is defying fierce competition by China. A major economic powerhouse. This research paper comprehensively discusses the historical evolution of events that made China a major player, the direction the U.S. has followed in adapting to such change, and the new balance of power-driven by emerging markets. This academic work will aim to understand how the U.S.-International role is redefined under the grasp of China evolved and enhanced international trade dominance. The study will mainly target how the trade war between the two giants may proceed to the next level and create serious international trade challenges.

Keywords: U.S.-China Relations, Trade War, U.S. Foreign Policy, World Order, Tariffs.

INTRODUCTION

Since 2017, the United States' ultraconservative administration has implied that it will reject globalism and will endorse the doctrine of patriotism. This was a major turn for America's right-wing politics since the rise of contemporary conservatism with Ronald Reagan in 1980.

Trump promised his constituents, the Grand Old Party (GOP) base, to "*Make America Great Again*" in all aspects, particularly America's position in a world that uses America's great motto as bait to cripple the country, according to him.

In contrast, the world economy emerged in the late 20th century on a globalized open market approach and adopted economic liberalization that galvanized emerging markets in third-world countries. China which deregulated the economy, allowing more investors and entrepreneurs to experience its potential, has made it a major dominant power in Asia. The economic prosperity and the emergence of the Chinese middle class allowed the country to formulate a strategy followed by the West. The economic competition and influence strategy through investing in emerging markets implement globalization that the Trump administration is harshly defying.

It has been proven that the decline of the American influence in the world, the increase in the size of the middle class, and increased wealth by major economic powers like China proved that it is not a winning strategy to impose protectionism by adopting old fashioned strategies. The decline of the American foreign policy is imminent, especially with countries that are becoming less dependent on socioeconomic aid from the former.

In international relations, great emphasis is placed on the China-U.S. relationship. The relationship between the two countries has witnessed a lot of ups and downs. Although China follows a regime contrary to the American liberal system, this has not prevented the U.S. from cooperating with China in many stages. However, despite the severing of diplomatic relations for years between the Chinese and American nations, negotiations, and diplomatic efforts have been maintained. Nobel Peace Prize laureate Henry Kissinger is one of the most prominent figures to restore U.S.-China relations.

Hypothesis: The Emergence of China as a Trade Power may Create Serious Concerns for U.S. International Dominance.

Research Questions

Several scholars believe that China is in a fierce economic and political race with the U.S. because of the great progress in recent years. Therefore, the U.S. administration is constantly monitoring China and trying to keep it from reaching the center of global decisions. But the recent Sino-American trade war has shifted the conflict from theories to reality. The academic work will address the following research questions:

- 1) How the rise of the multipolar world is a threat to U.S. dominance?
- 2) What will be the engaging grounds for the U.S. and China as Two Giants of world trade?
- 3) Is trade war an unavoidable reality between U.S. and China?

Research Objectives

The international studies are flooded with academic studies where the rising role of China as a trade power is highlighted with emphasis on the point that the conventional international settings will be altered. However, this research study will contribute to the unfolding trade wars, and for the first time, the study will be under the grasp of accepted Bi-polarise as an emerging reality. Thus, the objective will revolve around how international trade will be divided among two pillars of determining the global trade trends.

Research Methodology

The research methodology is the backbone of a study as it is through it that the data is collected or is streamlined for conducting conclusions or any establishment of a fact. The research methodology can be defined as follow:

“Research methodology simply refers to the practical “how” of any given piece of research. More specifically, it’s about how a researcher systematically designs a study to ensure valid and reliable results that address the research aims and objectives” (Warren, 2020).

The research methodology used in this academic work is quantitative and qualitative studies. The previous determine the numbers related to trade. The latter describes the policy-based determination of how the policy level initiatives from both states will affect the international trade environment. Thus, the methodology used is a mixed one comprising both qualitative and quantitative.

HISTORY OF THE BILATERAL RELATIONSHIP BETWEEN THE U.S. AND CHINA

The relationship between the economic giants goes back to 1899, specifically under U.S. President William McKinley, when the U.S. called on China to pursue an “open door” policy (Sugita, 2003: 3-20). This means that the Chinese arena will be open to all countries, posing a threat to Chinese policy; this U.S. policy led to giving the Shandong Peninsula of China, which was under the control of Germany, to Japan instead of returning it to China. This happened at the Versailles Conference in 1919 under President Woodrow Wilson. The U.S. was China’s ally or, in other words, the guardian of this country. In the days of the Great Famine in the late 1920s, the two U.S. presidents, Herbert Hoover and Franklin Roosevelt provided food aid to the Chinese people (Holmes, 2009: 32). The U.S. supported the Republican government led by Chiang Kai-shek, and it supported Taiwan against Japan in the Pacific War through massive military aid.

In 1949, China’s regime was changed, and the founding of the People’s Republic of China was announced after Mao Zedong’s Communist Party won the revolution (Dreyer, 1995: 12-61). In the beginning, the relationship between the new Chinese regime and the U.S. was normal, and there was no hostility between the two states (Cochran, 1973: 291-310). However, the Korean War (1950-1953), advocated by Kim Il-sung and supported by Stalin and Mao Zedong, changed China’s approach toward the U.S. (Stueck, 1981). China began anti-American campaigns, and it returned to pursue the policy of isolationism (Redick, 1973); it also helped the Communists in Vietnam against the U.S. But there was no full

Chinese hostility against the U.S. One of the most prominent events was the refusal of Mao Zedong to introduce the People's Liberation Army (PLA) into Vietnam to respond militarily to the U.S. in 1965.

The Sino-Soviet dispute positively reflected the U.S. (Dunbabin, 1996: 255). The U.S. has tried to approach the Chinese regime to be closer to its enemy (the Soviet Union) and use China to end some problems in Vietnam and Indochina. US-China relations have entered a new era of understanding and dialogue under President Richard Nixon. After the secret meetings (Dube, 2011), Richard Nixon made a historic visit to China in 1972, accompanied by Henry Kissinger, met with Chairman Mao Zedong (MacMillan, 2008), and agreed to establish rules governing Sino-U.S. relations. The most important talk was about Taiwan, where Chiang Kai-shek took refuge in 1949 (Dunbabin, 1996: 258).

The most important event in the Sino-American relationship was the establishment of diplomatic relations and the opening of the U.S. Embassy in China in 1979 under President Jimmy Carter. After this important diplomatic event, China launched a campaign against Vietnam after Vietnam invaded Cambodia. Chinese President Deng Xiaoping visited the U.S., showing China's desire to be a friend of the U.S., but relations between the two countries did not take the form of an alliance. After the rupture, the Chinese president reopened ties with the Soviet Union due to political differences.

Although relations were re-established, China did not treat the U.S. as a friend (Vance, 1983: 78-79). The U.S. has always increased its military support to Taiwan, and China has increased its military spending on armaments. In 1996, China tested ballistic missiles on all sides of the island and announced interceptions of arms shipments. A direct message to the U.S. that China is not afraid of war if it happens, prompting the U.S. to send two aircraft carriers to the Taiwan Straits.

Presidential campaigns in the U.S. often focus on China. Still, former President Barack Obama, especially in his first presidential term, was not dealing with China as a threat but wanted to turn the relationship into a partnership (Sanger, 2013). He visited China in 2009, but the rise of the Chinese military and economic power has threatened U.S. presence and interests in the Asian region.

Sino-U.S. Trade Cum Defense Issues

Today's most dangerous strategic point in Asia is the South China Sea (Fisher, 2016). It is most possible that it may turn into a center of conflict in the future between the U.S. and China; for this, China seeks to strengthen its presence in the region. In 2014, the U.S. and Chinese armies agreed on navigation rules to avoid confrontation in the South China Sea area. The Chinese Ministry of Defense considers that U.S. navigation seriously threatens China's sovereignty and security, negatively affecting the Sino-American relationship. In 2016, the Philippines filed a lawsuit against China before the International Court of Arbitration in The Hague on the South Sea case (Tweed and Shi, 2016). The court held that China did not have the right to sovereignty over the sea (Perlez, 2016), but China did not attend court hearings and considered its decisions invalid.

Taiwan is also a point of strategic conflict between the U.S. and China, especially after China began talking about the reunification of Taiwan to its territory (Shiyuan, 2015). It is considered a sophisticated Chinese step, a direct statement

that China has enough strength to make such a decision and stand against the U.S. (Gordon, 2009: 32). Considering that the U.S. is a key supporter of Taiwan (Van Vranken Hickey, 1988: 881-896), China considers Taiwan part of Chinese territory. However, it cannot be denied that the majority of the Taiwanese people are descendants of Han Chinese, and this shows that the Taiwanese and Chinese people are one ethnic group.

Another issue that poses a strategic threat to China is the question of Chinese Uyghur in the Xinjiang Uyghur Autonomous Region (Gardner, 2010: 24-25). The United States calls on China to give Muslims more religious and social freedoms. It is known that this group always calls for independence from China, specifically the Turkestan Islamic Party, an armed Uyghur organization calling for independence and the establishment of an independent state in East Turkestan. The United Nations classified this movement in 2002 as a terrorist organization (U.S. State Department, 2005: 237). Many members of this organization participate in terrorist attacks globally, which is not consistent with China's policy and peaceful interaction with countries.

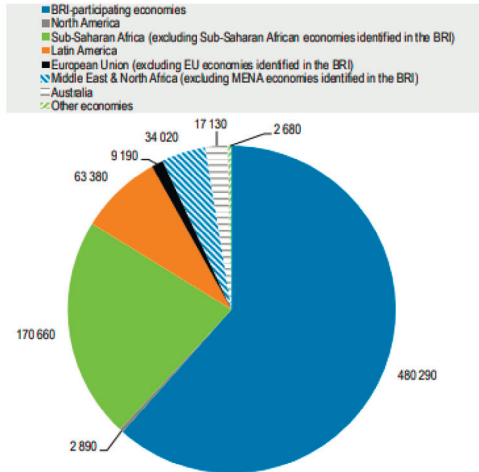
CHINA-U.S. COMPETITION

China's peaceful policy and its support for the peoples of the Third World are a concern of the U.S. China is working to strengthen its army accompanied by sustained economic growth and is announcing strategic and important initiatives such as the "Belt and Road Initiative" and "Made in China 2025". China's integrated policy makes China a superpower competing with the U.S. This integrated Chinese policy poses an indirect threat to the U.S. and poses the possibility of creating a new world order.

2013 is important for China after the Belt and Road Initiative was launched. It is one of the most important projects of our time (Kuo and Kommenda, 2018). As part of this initiative, many partnerships were concluded with China under this initiative, it has crossed many regions of the world, near and far geographically, from China. In 2014, \$40 billion was allocated to establish the Silk Road Fund, and in 2015, China launched the 21st Century Silk Road Vision, and the Asian Infrastructure Investment Bank (AIIB) was also established (Wan, 2015: 70). In Beijing, the first Belt and Road Forum for International Cooperation was held in 2017. Work on building projects for this initiative was included in the Constitution of the Communist Party of China. In 2018, about 95% of 279 projects were completed on the Belt and Road Forum for International Cooperation result list. The number of freight trains between China and Europe reached 10,000. In recent years, China has established 82 economic and trade cooperation zones in countries along the belt and road, with China investing \$28.9 billion and creating about 244,000 domestic jobs. By May 2018, China had signed 16 free trade agreements with 24 countries and regions. The good trade situation between China and the participating countries surpassed the U.S. \$5.5 trillion; China has pumped more than \$80 billion into direct investment in the non-financial sectors in these countries. Chinese companies also increased their investments in 54 member states. Construction contracts in member states are estimated at U.S. \$57.11 billion (Lam, 2016). Taxes were levied regardless of country of origin, but it was evident that the United States had China in mind. Over a three-year period, the United States increased tariffs on more than \$350

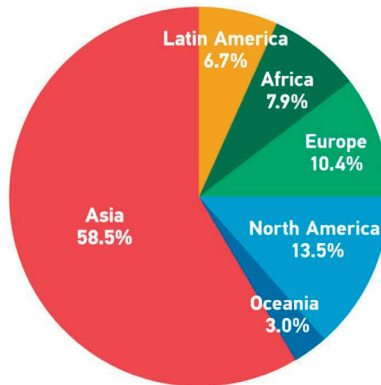
billion in Chinese imports. China retaliated by imposing duties on \$100 billion worth of U.S. goods. Tariffs were set to expire in January 2020, but they were extended through the end of the year. The U.S.-China trade dispute erupted in waves between 2018 and 2019. To ease trade tensions, the two countries inked the Phase One agreement in January 2020. However, tariffs will stay in place until late 2021 (Bown and Kolb, 2021).

Figure 1. *Outward Chinese Investments in the Construction Sector, Cumulative Notional Amount Expressed in USD Million, 2005-2018*



Source: American Enterprise Institute (AEI).

Figure 2. *Major Destinations of Overseas Chinese-invested Enterprises at End-2020*



Source: 2020 Statistical Bulletin of China’s Outward Foreign Direct Investment.

A comparison between Figures 1 and 2 shows that Chinese foreign investments are still mostly concentrated in Asia and the Belt and Road Initiative regions; despite the meager Chinese investments in North America, the investment rate in 2020 is more than it was in 2018, which indicates that economic exchanges between China and the United States are going through a phase of calm and rebuilding confidence.

Literature Review

One of the most important Chinese plans is “Made in China 2025” (Fang and Walsh, 2018), which develops the technology sector into China’s technology sector as important as in the U.S. and Europe. China has allocated nearly \$300 billion in self-sufficiency by 2025, such as chips and electric cars. China is working on a strategy to keep pace with modernity, and the Communist Party is convinced that there is no way to stay in the club of strong countries except through constant development (Pan, 2019). The U.S. considers the Plan as a real threat and that China is trying through this initiative to control high-tech industries such as space, robots, electric vehicles, and communications (Laskai, 2018). Beijing uses all means to pressure the U.S. and big companies such as Apple.

“Made in China 2025” is at the core of China’s new policy, and China will not abandon it because it will turn it into a global technology power. Through this project, China is trying to enhance competitiveness, making China an industrial giant in reducing resource consumption, raising productivity, and enhancing technological innovation. Five projects were to be implemented by 2025, including the Innovation Center for Industry, Intelligent Manufacturing and Green Manufacturing, Industry Enhancement, Equipment Innovation, Quality Improvement, and Service-Oriented Manufacturing. The Talent Development Plan and Plan formulation to push the I.T. and pharmaceutical industries. China is trying to apply the five development principles put forward by the Chinese president - innovation, harmony, greenery, openness, and mutual enjoyment of the fruits of development (Kennedy, 2015). China has become a major trading partner for many countries that had enormous trade relations with the United States at the beginning of the 21st century (Figure 3); the trade war is one of the direct causes of the expansion of China’s international economic influence.

Figure 3. *U.S. Overtaken by China as a Global Trade Power*



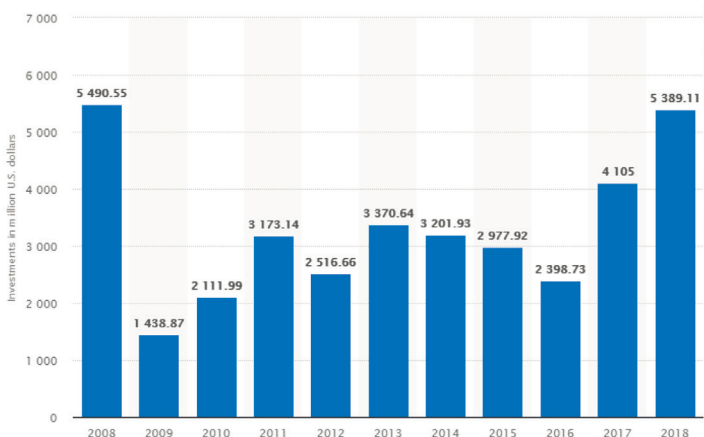
Source: Knoema.

China also competes strongly with the U.S. on the African continent; the U.S.-China competition is not limited to a certain world area. Still, this competition is very clear and strong on the African continent (Gin Ooi, 2004: 626). The relationship between China and African countries is deeply rooted in history. There is a common historical understanding that has developed over time. China’s bilateral relations with African countries are important and group ties such as the China-Africa Cooperation Forum, established in 2000. It is estimated that more than 80% of China’s natural resources and raw material needs come from

Africa. China became Africa’s most important trading partner in 2009. China’s trade with the African continent is expected to increase to about \$300-400 billion with the end of the executive program of the China-Africa Cooperation Forum (2019-2022), adopted by the recent summit of the Forum on Cooperation between the two sides in September. China’s investment in Africa is expected to exceed \$300 billion, from only 12 million in the early 1950s. China-U.S. relations have not developed but deteriorated further in the Trump era because America has nothing to offer but warn Africans not to cooperate with China.

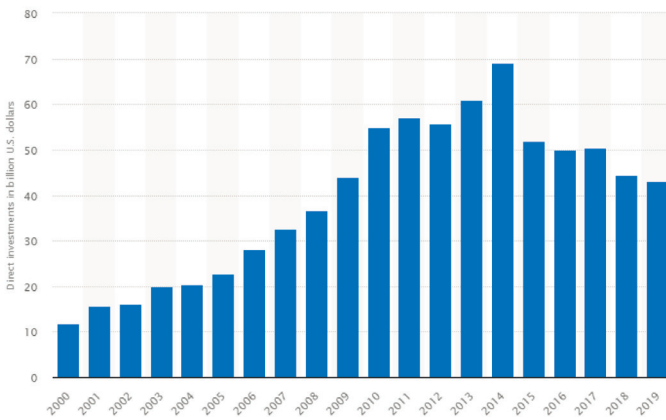
Since the 1990s, relations between China and Africa have obviously improved. Since the end of the Cold War in 1989, Sino-African relations have grown stronger. As Western interest in Africa waned following the end of the Cold War, China and Africa were able to deepen their cooperation. China tried to establish business and political ties with Africa (Ajakaiye and Kaplinsky, 2009). China’s economic growth has been the driving force behind Sino-African ties. With China’s rising economy, the country’s needs grew as well. China was able to capture a wide range of critical resources because of the abundance of the African continent. Resource access strategy began in 1996, according to Chris Alden (Alden, 2007: 3). Gas, electricity, and oil have replaced low-efficiency fuels used by motorized vehicles as China’s industrialization has accelerated (Moyo, 2013). Africa has become a strategic region for the Chinese economy in line with the “going out” strategy. As a result, Chinese companies are increasingly venturing abroad in search of new commercial opportunities that ultimately help China’s economy (Broich, 2017). Africans reaped the benefits of increased Chinese involvement in a variety of ways. China’s financial skills, as a result, provided an alternative to Western financial organizations such as the IMF (Van der Lugt, 2020). China loaned \$153 billion to Africa between 2000 and 2019. More than half of these loans were given out after 2010. Africa’s growth depends hugely on these investments, even though the results and effects differ from one country to another (CARI, 2021). Through Forum on China-Africa Cooperation (FOCAC), China loans to Africa, shares its technical know-how and makes significant investments in the areas of public health and education in Africa (Eshete, 2020). Africa’s economic and political clout has grown as a result of state visits and political conferences (Gazibo and Olivier, 2012).

Figure 4. Chinese Direct Foreign Investments in Africa from 2008 to 2018



Source: Statista 2021.

Figure 5. *U.S. Direct Foreign Investments in Africa from 2008 to 2019*



Source: Statista 2021.

It is noted in the figures that both the U.S. and China allocate enormous annual sums of money for direct foreign investments in Africa. Therefore, Africa is one of the areas of the power struggle between the U.S. and China. China penetrates widely in Central Asia and South Asia, these vital areas of the U.S., for example, the U.S. launched wars to tighten control over Afghanistan. Unlike China, the U.S. investments are historic in many areas, which is still a new investor, but its investments are rapidly developing.

Vice-Minister of Commerce Wang Shouwen has said, “*China is not a proponent of war with the U.S., but it will go to war if Washington wants it.*” (Schwartz, 2018) During the Trump presidential campaign, he announced that he would launch a trade war against China because China posed a threat to the U.S. This policy is based on raising taxes on Chinese goods. Beijing has pledged to take similar steps to impose high taxes on U.S. goods and products in China, including vehicles, high-tech devices, and smart devices. In January 2017, Beijing asked the U.S. to use more rational policies; and on its part, China showed its intentions that it did not want to open trade wars. In March 2018, the Chinese Embassy in Washington called on the U.S. to stop its decisions if Washington intends to open war against China. China’s Ministry of Commerce has announced plans to impose \$3 billion in “retaliatory” duties on U.S. imports, including pork and steel pipes. The measures will include a 25% tariff on pork imports and 15% on steel pipes and other products. On April 2, 2018, the Chinese authorities imposed customs duties on 128 U.S. products in retaliation for U.S. tariffs on Chinese aluminum and steel (Biesheuvel, 2018). On April 4, 2018, the Ministry of Finance announced that China would impose an additional 25% on 106 U.S. products, including soybeans, automobiles, chemicals, some aircraft, and corn, as well as other agricultural products. On April 6, the Chinese Ministry of Commerce issued a statement saying, “*If the U.S. side ignores the opposition of China and the international community, and insists on applying unilateralism and protectionism, the Chinese side will go to the end no matter what the price.*”

After their recent meeting in Buenos Aires after the G20 summit, the U.S. and Chinese sides agreed to suspend taxes for 90 days but on terms to be implemented within this time frame. China has agreed to buy many agricultural, industrial, energy, and other products (Reid, 2018).

China has similarly dealt with U.S. trade measures. It has tightened customs procedures, imposed strict measures, and raised the cost of the work of international companies on its territory. China has a history of adopting such measures, which is an obvious concern to the U.S. For its part, China is trying to isolate the U.S. by forging alliances with many countries in most regions of the world, limiting the strength of the U.S. China may also take the lead in the Trans-Pacific Partnership Agreement (The Economist, 2016).

China may devalue its Yuan currency in the most difficult and dangerous stages. The devaluation of the Chinese currency will have a multiplier effect. The weak currency means cheaper and more competitive Chinese exports. If the Chinese currency falls, the tariffs on its goods will be weaker. China holds \$1.17 trillion in debt to the U.S. government. If China wants confrontation, it may limit its assets from that debt if another economic attack occurs. Over the past two decades, Beijing has bought dozens of U.S. Treasuries as a means of safe investment (Rennison, 2017), and China has collected billions of interests from those bonds.

During his 2016 campaign, U.S. President Donald Trump focused on the slogan “Make America Great Again.” The primary goal of his campaign was to boost economic growth, without denying that America’s economic growth was accelerating. In the 1960s and 1970s, the middle class was estimated at 61% of American households (Kline, 2018). Back then, there was virtually no serious economic adversary to the American empire till the mid-eighties. The 1980s is considered a period of transformation in the world. A culture of consumerism has prevailed, and many multinational organizations have been established. The U.S. GDP reached \$2.4 trillion, and public debt became \$858 billion in 1980.

The world entered a stage of economic prosperity after the middle class expanded and the proportion of investments in projects began to increase. During this period of economic revival, China was working on a “Reform and Opening Up” strategy, where a greater margin was given to individual economic initiatives supported by the state in agriculture, trade, or business. The U.S. took advantage of this new Chinese economic strategy for economic openness to China and cooperation. In line with the economic boom and availability of labor and natural resources, Chinese laws made it easier for foreign investors to invest in China, contributing to raising the level of individual income in China. This is also one of the most important reasons for turning China into the world’s factory. These new economic policies have strengthened individual initiatives and the role of the private sector, with the private sector making up around 70% of the economy in 2005 (Engardio, 2005).

China’s great economic growth and is still achieving have attracted many large multinational companies such as Apple. The economic systems that govern China and the U.S. have made them two economic giants with great potential for economic expansion beyond borders. China-owned \$1,138 billion in U.S. Treasury securities in 2018, indicating China’s great potential and sensitive role in the U.S. economy (Department of the Treasury/Federal Reserve Board, 2018). Unlike the U.S., China managed to keep a surplus on the trade balance, while economic reports indicate that the U.S. is heading towards more deficits.

To fulfill the promises made during his presidential campaign, U.S. President Donald Trump has declared a trade war on China for many reasons, notably

strengthening the U.S. domestic economy and urging business people to place their investments in the U.S. market. Trade war relied on high taxes on Chinese goods entering the U.S. market, and China likewise dealt with U.S. goods. This war has a negative rebound on both sides. Many American farmers declared bankruptcy after the absence of the Chinese consumer and imported soybeans and wheat from other countries (Heeb, 2018). China preferred to import soybeans from Russia to evade the U.S. administration's tax-based policies. One of the results of this war was the signing of some trade treaties between China and Russia regarding importing some animal and agricultural resources (Medetsky and Durisin, 2018).

The huge network of ties China built has made it not rely entirely on the U.S. for economic dealings, which is one of the core goals of Chinese policy. Since the early 1980s, China has increased the budget allocated to education, contributing to China's technological and industrial rise. In addition to reducing poverty and increasing the proportion of the middle class, this policy made China achieve high ranks in economic and social development.

As part of the trade war, former U.S. President Donald Trump decided to cancel the Transatlantic Trade and Investment Partnership. Upon the arrival of Donald Trump to the presidency, he sought to cancel the TTIP, which would disturb U.S.-EU relations. These policies aimed to gain popularity and boost the U.S. economy. However, Trump created a rift between the U.S. intelligentsia, as many economists strongly opposed these policies and considered them destructive to the U.S. and international economies. The termination of TTIP will increase the control of the bourgeoisie and business people over the economy. During his campaign, Trump has boasted that he is a super-rich man and has manufactured a large portion of his wealth at the expense of exploiting trade agreements such as the North American Free Trade Agreement (NAFTA) to "offshore" jobs and avoid regulation. Before he is a politician, Donald Trump is a successful businessman, so politics is a tool for economic gain. The U.S. President's economic policy tends towards right-wing economic protectionism, as he has set economic restrictions and tariffs to create economic gains for the U.S. at the expense of the economies of other countries. Hence, it is an anarchist and destructive economic method. The right-wing parties in Europe are following Trump's political path. Some right-wing European parties have opposed the Comprehensive Economic and Trade Agreement between the European Union and Canada (Dearden, 2016).

Trump considers some agreements, such as NAFTA, to be bad legacies of the Bill Clinton and George Bush administrations. Some European countries, such as the United Kingdom, preferred isolation through BREXIT to pursue a policy similar to President Trump's (O'Grady, 2017). The trade war against China, the new strategy toward Mexico, and the abolition of the TTIP and TPP signal the radical change that President Trump has brought about in U.S. foreign policy. The economy is the engine of President Trump's policy. In his early days as president, he withdrew the U.S. from a new trade agreement between Australia, Brunei, Canada, Chile, Japan, and Malaysia. So, Trump ditched the Trans-Pacific Partnership (TPP) at the expense of supporting the U.S. national economy and making America first. The U.S. President endorsed a protectionist policy by imposing taxes and shackling international trade. This policy may be feasible in the short term, but in the long term, it is disastrous. This policy will lead to a

reduction in trade competition and an increase in prices due to the high wages of the national workforce and the advancement of other economies such as the Chinese and the Vietnamese. China has taken advantage of the vacuum created by President Trump's Asia-Pacific policy. Trump's economic decisions revealed the great discrepancy between Obama's and Trump's strategies. Obama has shown greater economic openness and a desire to cooperate and build partnerships, in contrast to Trump, who has pursued a protectionist policy (Maasland, 2017).

This can be well explained when we look at the historical evolution of the Chinese economy. As of 2018, China's nominal GDP reached a total value of \$13.45 trillion (IMF, 2018), ranking the country second to the U.S. reached a GDP of \$20.6 trillion (Bureau of Economic Analysis, 2018) under the same nominal value. But measuring the GDP by its Purchasing Power Parity (PPP), China by far exceeds the U.S. in the overall value of the GDP by \$25.1 trillion for the former to 20.2 trillion for the latter (IMF, 2018). Despite the World Bank's report issued in December 2021 regarding China, which indicated some negative points, the international economic situation is not sound and most countries suffer from massive economic crises, including the United States. Returning the World Bank report, it indicated that China's economy is projected to slow in 2022, and downside risks to China's economic outlook have increased due to new variants of COVID-19 specifically Omicron (World Bank Forecast for China, 2021).

If the current trends continue, China's nominal GDP will be the world's largest economy. Reports indicate that the Chinese economy will be estimated at \$49 trillion, replacing the U.S. projected to be second with a total GDP of \$34 trillion (PwC, 2017: 68).

Following the deregulation strategy, which transformed China into a market-oriented economy, consumerism and the commoditization of many goods and services helped hundreds of millions of Chinese enter the middle class and spend on their locally manufactured products. Such sustainable economic and industrial growth accumulated attracted millions of foreign investors who utilized China with the unlimited flow of capital, cheap labor force, raw materials, and evolving technology. These conditions created a perfect climate for China to become a major influencer in the global market, particularly in underdeveloped regions in the world.

China gave billions of dollars in aid to some African countries since the latter have all the prerequisites needed to enhance economic growth. The focus on raw material investments is one logical reason for China, given that mining comprises one-third of its foreign investments (Maverick, 2018). The African strategy proves how China is currently using a soft power approach in such emerging markets that shapes the ongoing global governance. China's long-term strategy is to establish itself as a class world power. By 2021, China's GDP is expected to double the 2010 record valued at \$12 trillion. China's rapid expansion and modernization combined with its economic and political influence will strengthen its role in multilateral institutions, contributing to supporting efforts to establish new international institutions that promote alternative modes and models (Natulya, 2018).

Apart from the international foreign policy strategy, China has already started investing in future technology in the long run in strategic areas such as Artificial intelligence. Millions of young Chinese pupils enrolled in schools are currently

receiving education about information technology which is becoming a core requirement in their educational modules. In conclusion, it is too late for Trump's administration to stop China from becoming the world's leader in A.I. China has benefited from the open investments from American corporations in China. Such technology allowed China to supersede the exclusivity of Silicon Valley, especially when such investments incorporated military technology that China explicitly expressed willingness to invest in. Senator John Cornyn stated that if current trends continue, some technologies can be incorporated into China-made equipment that will be used against the U.S. conflict and might eventually lead to military conflict (Simonite, 2017). To explain this further, Trump's administration is imposing tariffs on Chinese imported goods, which led China to impose a retaliatory on billions' of dollars' worth of American products. Moreover, North Korea felt relaxed after the U.S. eased the sanctions. Making Pyongyang an economic outlet for Chinese investors to avoid further devastating penalties, Beijing's closer ties with Moscow and Tehran forced Trump's administration to isolate those countries (Ward, 2018).

The commercial conflict continues. A contagion or current value effect on Chinese listed companies is investigated in this article.

The two countries' trade balance indicates how both governments differently manage their approach and strategies. As of 2018, China's trade balance was a surplus of \$350 billion, whereas that of the U.S. was a deficit of \$770 billion.

America functions on the strategy of applying a libertarian deregulatory philosophy under the classical market formula of self-regulation with minimal governmental intervention. Unlike China, although it adopted a market-oriented system that opens the door for investors, the government still has the ultimate authority to impose a protectionist approach to protect the market through microenvironmental screening for the market supply and demand.

The stock market felt the effects of the trade war almost immediately. The impact of the trade war on China's stock market changes over time. Market forecasts were initially unsure, and some were bullish. However, the market understood the trade war was serious when duties were raised on \$50 and \$200 billion worth of products, and the stock market plummeted even deeper during this period (Amiti and Weinstein, 2020).

There was a significant reaction to the trade war announcement the day after. When new steel and aluminum tariffs were announced, several sectors kept mute. The impact of tariffs on \$50 billion worth of Chinese imports was obvious by the time they were imposed (Dabbous and Tarhini, 2021). During the trade war, certain industries had negative excess returns, while others felt the impact more acutely than others.

During the announcement and implementation phases when tariffs were to be imposed on \$200 billion worth of goods, the impact of the trade war on various enterprises did not differ greatly from the market. Many firms have been adversely affected by the ongoing trade war (Itakura, 2019).

The market's systemic risk is a reflection of the trade war's impact on the industry. As a result, the short-term impact of the trade war on many enterprises was unaffected by industry. The stock market has the same effect as a trade war (Iqbal, 2020).

Trade tensions between China and the United States have reduced, but they haven't gone away completely following a series of high-level talks between the two countries. The United States continues to place Chinese companies on a no-fly list (Goulard, 2020). To put it another way, trade tensions in China's stock market might have a more immediate impact than long-term effects.

The Outcomes of Trump's Protectionist Policy

U.S. former President Donald Trump believed that "trade fights are great and easy to win." However, there is no such thing as a vacuum when it comes to international trade policy. The US lost money due to the trade dispute. It harmed both businesses and consumers who purchased foreign goods. Politically, the policy was a failure. In trade-war-affected areas, Republicans saw their support dwindle in 2018 (Huang, 2021).

Foreign trade was considered a zero-sum game by President Trump. In fact, international trade is a win-win situation for both sides, according to conventional economic theory. Aiming to exert pressure on U.S. major trading partners, including China, the Trump administration initially implemented import taxes. The increased import of steel and aluminum was viewed as a national security threat because of this. Export industries in China and the EU, according to the administration, had an unfair advantage over U.S. firms both domestically and overseas.

Import tariffs appear to be a bad policy since they raise the price of a product in the domestic market. A recent analysis reveals that domestic prices for tariffed commodities have risen by the whole tariff amount. International prices have remained stable as Chinese exporters have sold more goods outside of the U.S. Increasing tariffs may lead to an increase in demand from businesses. As a result, the price of goods may have remained unchanged. Due to the tariffs, American businesses and consumers were negatively affected.

In 2018-19, imports cost consumers and businesses an additional \$114.2 billion. Retaliatory tariffs might have a negative impact on the protected industry, while positive effects would accrue to downstream users of the protected goods. A total of \$24.3 billion in net production gains and \$65 billion in tariff revenue were estimated. To put it another way, the country lost \$24.9 billion (\$114.2 billion – net production gains and tariff income) (Staiger, 2021). Thus, the trade war was detrimental to the United States. Importers and consumers were disproportionately disadvantaged by these laws.

The U.S. economy would lose \$60 billion and 176,800 full-time jobs under this scenario. Increased tariffs from U.S. trade partners would reduce the U.S. GDP by \$10 billion and eliminate 30,000 full-time employees in the United States. Numerous businesses and customers were hurt by Trump's trade policies. All Americans saw their wages and employment opportunities shrink as a result of these policies (Walter, 2021).

The trade war had a negative impact on Republicans; they have lost five to eight House seats as a result of the trade conflict. The retaliatory duties were also directed at election areas with low voter turnout. The Trump administration has two options. Direct government help totaling up to \$12 billion was provided to agricultural states in response to China's retaliatory tariffs on U.S. soybeans.

The Trump administration claimed that the trade war saved the American economy (Krol, 2021).

Economic losses from the tariffs were exacerbated by the U.S. trading partners, who imposed additional duties on U.S. goods traded there. In a nutshell, China was mostly untouched by the trade conflict. As a result of Trump's policies, the United States is now on the path to a politically driven managed trade system.

A lot of attention is being paid right now to the Biden administration's trade relations with China and other trading partners. It's time for Biden's administration to put a stop to Trump's disastrous policies. Revisit an open trade system that has been beneficial to all of the world's economies, not just the United States (Wainer, 2021).

Trump's trade war with China was projected to have a negative impact on American consumers and businesses. The widespread notion is supported by a growing amount of evidence. According to one research, American exporters were forced to pay more for Chinese components than they had to.

According to researchers at the University of Chicago, tariffs on imported washing machines pushed up prices by around 12%. According to Moody's Investor Service, importers covered non-consumer expenditures. Tariffs first pushed up costs and decreased efficiency by raising inventory holding periods. Thus, Tariffs have harmed, not benefited, American manufacturers (Fettig, 2019).

In 2018, the U.S. trade deficit grew by 12%, reaching a 10-year high of \$621 billion. Importers may have gone on a buying binge ahead of the tariffs if this is the case. Manufacturing has been relocated to countries with lower labor costs such as Vietnam and Mexico. So, tariffs have harmed the competitiveness of U.S. manufacturers. Domestic enterprises may not always profit from protectionist measures in the United States.

Despite Mr. Trump's claim that tariffs were necessary to curb unfair trade practices, promote American manufacturing, and reduce the U.S. trade deficit, they would harm Chinese exporters who would be forced to lower their prices. A trade war would decrease the U.S. gross domestic product, cause financial market instability, and affect both individuals and businesses. A struggle for tariff protection may not be worth the costs in today's global economy (Ma et al., 2021).

Inventory and sales are declining as a result of the trade war. Once tariffs were raised, inventory holding times for companies that bought directly from Chinese suppliers increased by about eight days. Inventory costs rose and sales decreased as a result of the trade war, which hurt the bottom lines of companies across the board. Enterprises that source from China see a 3.89% decrease in return on assets.

The impact of tariffs on a company's profitability varies according on the nature of the company's supply chain. There was little impact on companies with extensive vertical integration, which had more control over the manufacturing of product components, due to the tariffs. Tariffs have the greatest impact on businesses with more complex supply chains. A 6.37% worse return on assets was seen by firms with Chinese suppliers and significant "spatial complexity", suppliers spread across many sites, than those not directly affected by tariffs (Li and Whalley, 2021).

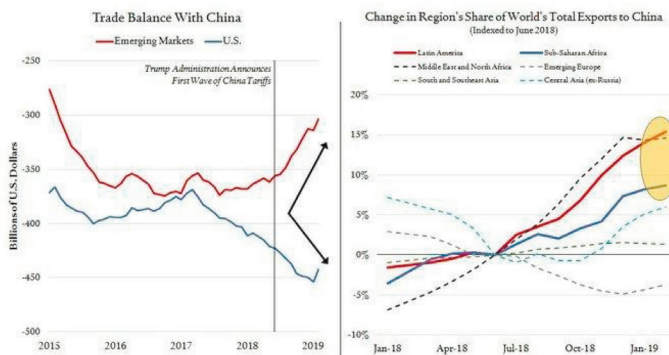
Return on assets was 8.25% lower after tariffs for supply networks with high cooperative complexity, such as when one supplier’s output provides input for another’s supply chain. Supplier variety is meant to prevent supply disruptions, such as the introduction of a new tariff. However, the increased complexity of the supply chain necessitates more communication and coordination, which boosts transaction costs. Global marketplace disruptions might increase the stress on multinational corporations.

Companies with extensive sources of supply suffered more as a result of tariff rises. A lack of supplier diversity might limit an organization’s capacity to respond to political risk occurrences. Mercantilist economic ideas have been resurrected in the wake of increased economic disparity, job losses to low-wage countries, and a rise in nationalist sentiment. In today’s global economy, nationalistic policies such as trade wars and protectionism are ineffective. Because major (multinational corporations) rely so heavily on worldwide commerce, any setback would have a significant effect on their operations and, by extension, the domestic economy.

Impact of the Trade War on the Belt and Road Initiative

U.S.-China trade has not been rebalanced by Trump’s tariffs, but China has reduced trade with other nations. Emerging-market exports to China have soared since the start of the trade war. While importing less from the United States, China has increased its purchases from across the world.

Figure 6. Trade Balance with China – Change in Regions Share of World’s Total Exports to China



Source: Haver Analytics; IMF.

The “Belt and Road” investment plan has resulted in a growth in trade between countries along the route (BRI). Several African and Latin American countries have reaped the benefits of the BRI’s. According to a China State Council official, “a long-term Sino-U.S. trade fight will certainly alter the import sources of various items.” China was anticipated to “place orders for land-intensive agricultural products” from BRI members. Trade wars aren’t “good, and simple to win,” as Donald Trump famously remarked in March 2018 (Figure 6). It’s possible to win if you don’t participate in the BRI (Steil and Della Rocca, 2019).

Biden's China Strategy: What's New?

The Biden administration wrapped up its review of China policy. The Biden administration's strategy toward China will not be the same as the Trump administration, but China will be the United States' most important adversary and fiercest trade competitor. The "C" words of competition, collaboration, and conflict have been often emphasized by high-ranking foreign policy officials.

According to Secretary of State Antony Blinken, it will be "competitive when it has to be, collaborative when it can be, and aggressive when it has to be" (Wadhams, 2021). In contrast to the Trump administration's "all-encompassing decoupling" plan, the Biden administration has reiterated its commitment to engagement and cooperation with China in areas that serve American interests. However, U.S.-China relations are characterized by "stiff competition," according to Biden (Salama and Lubold, 2021).

In light of China's growing power and influence, the United States should strengthen ties with its allies. The U.S. and allies are concerned by Beijing's increasingly assertive behavior in the region and globally, including pressure campaigns against Taiwan and Australia and retaliatory penalties against North American and European individuals and institutions (Rajah, 2021). In his campaign, Vice President Biden emphasized the importance of maintaining close ties with long-term U.S. allies. During his Senate confirmation hearing, Antony Blinken emphasized the importance of reviving U.S. fundamental partnerships.

Establishing a coalition is more important than ever, as seen by Blinken and Defense Secretary Lloyd Austin's recent trips to Japan and South Korea and their meetings with EU and NATO leaders in Brussels; and leaders from Japan, Australia, and India convened by video conference for the first time. Media outlets in the United States characterized a meeting between President Joe Biden and Japanese Prime Minister Yoshihide Suga in mid-April as "all about China" (Wainer and Reynolds, 2021).

As a result of a number of recent Biden administration decisions, it appears like another Cold War with China is about to begin. Among these actions are restructuring global industrial and supply chains, forming the "chip alliance" or "semiconductor industry alliance," joining "like-minded countries" to boycott Chinese products and events over human rights concerns, urging EU countries to reconsider the EU-China Comprehensive Agreement on Investment, and hosting the "democracy summit" at the White House.

According to some Chinese and foreign commentators, China, Russia, and Iran make up the core of the coalition against the United States. In the wake of the nuclear incident at the Natanz complex and the extraordinary diplomatic (or undiplomatic) meetings at the high-level U.S.-China dialogue in Anchorage; China, Russia, and Iran have increased their cooperation. Despite the lack of ideological cohesion or mutual trust, they are eager to demonstrate cooperation in the face of what they perceive to be a significant threat from the U.S.-led military alliance.

"Sino-Russian ties are today at the greatest level in history," Russian Foreign Minister Sergey Lavrov said in late March. Wang Yi and Lavrov agreed that Russian-Chinese cooperation in global geopolitics is essential; Lavrov said on March 27, 2021, China and Iran signed a 25-year strategic partnership agreement

(Lavrov, 2021). The following are the three most important clauses: In order to avoid interference from GPS-owned by the United States, the Islamic Republic of Iran will switch to China's Beidou global positioning and navigation system (Yulong and Zhendong, 2021). The signing of the China-Iran cooperation agreement, according to some Chinese observers, is a momentous occasion.

According to President Biden, the United States is "not anti-Chinese" and "not seeking confrontation" with China, but neither the Chinese government nor the Chinese people believe him. It has been reported that the United States put pressure on South Korea to join Quad and invited the United Kingdom, France, and Germany to take part in "Free Navigation" naval exercises in the South China Sea in March. For the Biden administration's Taiwan policy, Beijing is the most alarmed. President Biden's inaugural festivities included Taiwan's ambassador, a sign of trouble for Beijing (Yinhong, 2021). As a result of "U.S. aggressive moves to threaten Beijing's redline," anti-American hostility has surged in the Chinese media. This escalation and tension in bilateral relations may negatively affect trade relations between China and the United States, which may lead to other trade wars.

CONCLUSION

The economy is the most important indicator of the rise and fall of international powers. The world is now shifting from single polar to multipolar leadership. Therefore, the old approach used in the Cold War, which led to asymmetrical polarization in foreign politics, is no longer valid today. Economic leadership and the willingness to invest in emerging technologies define world domination instead of the single reliance on military power. China's technological development and the great economic growth it has achieved in recent years due to current policies have made China a strong country capable of making its decisions without going back to the West. China is emerging as an economic competitor to the U.S. This competition could lead to a new multipolar international order. The trade war has had negative consequences for both China and the U.S. and has resulted in many economic losses, so the tax policy has not been effective. The U.S. poses a great danger to China, but China is an important trading partner of the U.S. From a realistic point of view, possessing military or moral force is not an incentive for engagement because the Sino-U.S. economic interest requires joint action despite political or ideological differences.

The United States has sensed the danger coming from China that seriously threatens its global economic position. Former U.S. President Donald Trump launched the trade war to curb the tremendous Chinese economic progress and set some controls such as tariffs and international commitments that may reduce Chinese economic progress. The U.S. has recently pursued a policy of economic disengagement in some sectors with China. The trade war may not end soon, despite the agreement signed between the two countries as a step on the road to a solution. The international economy has suffered from the repercussions of this war, which created economic chaos.

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