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US-CHINA Trade War And Its Implications On The Global Economy

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Abstract: This study is significant in terms of the impact of the U.S.–China trade war on global recovery. These two nations, considered the leading economic and political powers of the world, play a pivotal role in the formation of global trade and overall economic indicators. Since joining the WTO, China has achieved significant economic benefits and strengthened its integration with developing economies through initiatives such as the BRICS organization and the ―One Belt, One Road‖ project. These developments have contributed not only to China‗s own share in global GDP but also to the economic growth of its partner countries.

Keywords: US-China Trade war, Tariff war, protectionism, Economic impacts.

Introduction: China, which has become a global power and the main rival of the USA, encountered Washington‗s increasingly protectionist trade policies. The trade war—one of the key economic conflict tools of the modern age—was officially launched in 2018 when the U.S. imposed higher tariffs against China in response to its increasing trade deficit. As a result, international trade volumes and U.S. imports from China have also shown a sharp decline. In the short term, many regional economies experienced economic losses as a consequence.

However, China‗s strategy of diversification has provided opportunities for many developing countries to grow and continue benefiting economically from the resulting structural shifts in global trade. This study aims to analyze the immediate consequences of the trade war and assess its effects on U.S.–China trade relations, levels of foreign direct investment (FDI), and the broader economic performance of other countries within the region.

In The Wealth of Nations, Adam Smith claimed that open markets and free trade are fundamentally advantageous for the economy. Hence, the division of labor, the gains from trade, specialization, and eventually, productivity improvement are the main driving forces of economic growth. The economic miracle since the early 1960s of Asia‗s four little dragons[2] and China‗s remarkable rise since its opening up and reform policies from 1978 [7; 22] have also been heavily due to active involvement in international markets, productivity improvement, and accompanying industrial development. Today, the idea of the World Trade Organization (WTO) has consistently supported and promoted the idea of an open international trading system, expansion of trade, reducing trade barriers, and encouraging free exchange among nations to foster global economic growth and development. Over the period of the first 25 years following the Second World War, the tariffs on manufactured goods fell to as low as 5%, respectively.

The data demonstrates a clear connection between free international trade and economic growth through the theory of comparative advantage introduced by classical economist David Ricardo. In general, the unrestricted flow of goods and services contributes to greater competition and innovation, while also improving how resources are allocated, reducing inefficiency, and increasing total output by directing resources to their most productive uses. But what happens when free trade is restricted through measures like tariffs?

Even though there are multiple factors, researchers have identified four key reasons behind the most significant trade conflict in U.S.–China history, supporting the American purpose:

1. To reduce the trade deficit and increase employment opportunities.

2. To defend against Chinese companies exploiting American innovations and to hinder the advancement of China‘s industrial automation.

3. To evaluate the expansion of China‘s military power.

4. To reduce the government‘s budget deficit.

Trade wars have continued and are considered to have no winners [9]. The conflict between the United States and China, however, remains unresolved and continues to impact both of the world‘s largest economies in multiple ways. It is also influencing other economies with strong trade ties to these two nations, which will be examined in the following sections.

Historical Perspective and Recent Reasons for the US-China Wars

The war of trade between America and China has played a crucial role in the formation of the world economy. Both are considered the world‘s most powerful nations, shaping their mutual interests and influencing the overall direction of the global economy. Especially during the Cold War period, America—with its ideology of being the only global power in the world—made serious progress in this goal by forming the NATO alliance against the USSR [6].

Since joining the World Trade Organization in 2001, China has significantly contributed to global economic development, particularly in cooperation with major powers. Following the 2008 crisis, it has steadily accumulated the capacity for widespread political and economic power. After the global financial crisis, advanced economies were weakened, while developing countries emerged as the new engines of global growth. Integration into the world economy has been a powerful means for countries to promote economic growth and development [27].

When the acronym —BRIC‖ was created in 2001 by Goldman Sachs economist Jim O‘Neill, it referred to the bank‘s prediction that the four large and fast-growing emerging economies—Brazil, Russia, India, and China—would drive economic growth in the 21st century, with their combined GDPs exceeding that of the advanced G7 countries by the middle of the century. The BRIC countries together account for 40 percent of the world‘s population, nearly a quarter of global GDP, and roughly 10 percent of international currency reserves. The United States has increasingly questioned its future relationship with China, comparing it to the development and integration of the Commonwealth countries into NATO, and perceiving it as a strategic competitor.

In recent years, the rapid expansion of China‘s economic and political power has become a defining feature of the global landscape. America, its main trading partner, has become severely concerned, and relations between the two countries have deteriorated[15].

According to Trump, China was responsible for stealing $100 billion worth of intellectual property. He further argued that the growing tensions in relation to Taiwan and Hong Kong, as well as China‘s increasing pressure on neighboring island states, created unfair competition not only in economic terms but also in military and political spheres. Trump also expressed concerns that China‘s rapid rise in economic, political, and military power was rooted in its innovative economy and world-class educational institutions.

Following Donald Trump‘s inauguration, efforts to enhance United States–China relations during his first term swiftly unraveled, and the bilateral relationship entered a sustained period of tension. The outbreak of the COVID-19 pandemic further exacerbated these tensions, acting as a trigger for previous disputes. A crucial element underlying this conflict was the United States‘ growing imbalance in the balance of trade. More than half of the total deficit was generated in trade with China. In response, America introduced tariffs on a range of Chinese imports beginning in 2018. These investigations were intended to decrease the deficit, reinforce the competitiveness of American industries, and regulate China‘s rising position in global markets. Average U.S. taxes on Chinese exports increased on goods worth over $250 billion. The total value had reached approximately $350 billion.

This protectionist strategy later evolved under the Biden administration, which imposed an additional $3.6 billion in tariffs on $18 billion worth of imports [28]. While these actions were intended to rebalance trade, Liu and Liu[13] argue that the —Institutional Origins of the U.S.–China Trade War‖ can be traced to the WTO framework‘s institutional limitations. These constraints restricted the U.S.‘s legal recourse against China‘s overproduction, which disrupted global markets and prompted protectionist reactions.

Beyond the trade imbalance, —White House expressed growing concern over China‘s conduct towards intellectual property rights, arguing that systematic violations claiming that such experiences created unfair competition. In this context, Kwan[11] highlights that the trade war is fundamentally a struggle for technological dominance. It emphasizes how China‘s state-led initiatives like—Made in China 2025 staked American concerns about technology transfer and fair market practices. This dynamics allowed Chinese industries to adopt and commercialize advanced technologies more rapidly over American products, such dynamics ultimately threat in terms of competition, which is a development regarded as a unfavorable for the United States[25] One of the most serious steps taken by China towards becoming a global power in the world is the —One Belt, One Road‖ project, which was launched in 2013 and was not supported by the YS. This cooperation, which covers a total of 150 countries, 2/3 of the world‘s population and 1/3 of its GDP, is of great importance, accordingly to the statistics. The primary objective of the —One Belt, One Road‖ initiative is to establish and encourage a new framework for international cooperation and development. This is pursued by strengthening geopolitical and geoeconomic initiatives, but also the structures of collaboration between continents and the relations between countries to become a global power.

In other words, China, on the one hand, expands its economic and political ties with the initiative countries and gains economic opportunities, on the other hand, creates serious opportunities to seriously reduce America‘s influence in the region. The countries of the Union cover not only the Asian continent, but also the African and South American continents[1]. China which has significantly expanded its investment portfolio through the Silk Road Fund, China Eximbank and Asian Infrastructure Investment Bank (AIIB), was invested $1. 053 trillion ($634 billion to construction, $419 billion to non-financial investment) to countries within 10 years from the start of the —Belt and Road‖ project, according to the current statistical indicators of 2023[29] China‘s expanding investments and growing influence not only in Asia but also in parts of Africa and South America, Sino-American relationship deterioration leading up to breakups. The Russia, countries have been considered to be supported between —East and West‖. In particular, the increasing Russian-Chinese economic and political ties during this period have also had an impact trajectory of US-China relations. According to Tradingeconomics (2024), China‘s exports yo Russia rose by 13.2% in 2022 and 45.9% in 2023, reaching a record $111 billion. Similarly, Yang [30] highlights that China has invested $60 billion in Venezuela , strengthening its broader engagement with almost all countries that pursuing anti-American policies. These developments indicate that geopolitical competition, especially in the wake of the war, its reinforcing rather than diminishing US-China trade dynemics.

The impacts of US-China competition on the world economy

Based on statistical indicators, EU-China relations, which have been going on for many years and have entered a wave of trade tensions to deteriorate following the introduction of tariffs in 2018, have contributed to a decline in trust. This decline is significant not only in terms of loss of mutual economic opportunities between two of the world‘s leading trading powers, but also in terms of the wider effects on the global economy. As two- way relationship economic and politics ties between nations weaken, the trade volume between them has shown a clear downward trend. At the same time, China, which has been the largest trade partner of the US for a long time, was overtaken by Mexico in 2023, with Mexico reaching $ 475 billion in imports, China reached the 2nd place. In particular, by reducing shift the US ‗s trade deficit with China, it also reduces the overall trade deficit. In the initial phase of trade war, the immediate impact on both countries has been as follows: By pursuing a —protectionist‖ trade policy by imposing trade tariffs, the US created restrictions to the flow of China‘s economical products into its market. This quickly created short-term product shortages, that is driving up upward pressure on prices as decrease in supply against a backdrop of low demand. As a result, the population spend more money to cover their daily needs, which had a detrimental effect on family budgets and reduced real incomes by about $. 1.4 billion each month. Since lower incomes led to reduced consumption and tax revenues, and this index adversely affect GDP, contributing to an estimated 0.3% decline and the loss up to 300.000 jobs [8].

At the same time, supply chain disruption and interruption in the flow or production also created further challenges fir businesses. China, in response to, increased tariffs on US imports as well. As a result, in 2020, compared to 2018, US tariffs on Chinese imports accelerated ftom 3.1 percent to 19.3 percent, while China raised tariffs on US goods from 8% to 21%. These increases created obstacles for American manufacturers to access essential production equipment for the production of technological manufacturing faced serious costs due to the shortage of raw materials which are locomotives of the American economy. As a result, production expenses climbed, and product competitiveness declined. Another important sector hit hard agricultural sector with exports falling by 53 percent (a $ 10 billion drop) in 2019 compared to the previous year [12] U.S trade policy toward China has been continued not only under the Trump era but also during Biden presidency, and the signing of the first trade agreement of the 21st century with Taiwan shows once again that this policy will continue.

On the other hand, companies whose revenues have increased by boosting competitiveness of domestic production have naturally turned their output, aiming to increase their profits by producing more goods for the market facing relative shortages. This has a positive effect on reducing the unemployment rate against the background of additional labour[24]. In fact , the US unemployment rate which rose to 8.05 percent in 2020, dropped to 3.63 percent in 2023, which is considered a record indicator in a 32-year period [17].

America's total trade turnover has continued to grow at an increasing pace since the first period of the trade wars, with the exception of 2019 and 2020. On the other hand, this policy has also had adverse consequences for China, which has been confronted with trade barriers. The partial restriction on Chinese products, which are regarded as ―economically affordable‖ by American consumers-has had double effect and not only reduced access to such goods for US consumers but also dud effectively sabotage Chinese exporters, whose economy is heavily export-driven. Dependdence to the US market let them to face short-term decline in export revenues and marginal benefits (research shows that tariffs decrease by 1% against the background of an increase in export prices, while marginal benefit decreases by 0.35 points). In this context, the unemployment rate has increased by 1.6%[23]. As a matter of fact rising unemployment snd falling income levels, in turn, because tax revenues by contributing inefficiency of economic growth. In the initial phase when the tariffs were implemented, these dynemics posed significant challenges for China's export-based economy. Companies burdened due to the applied tariffs were forced to search alternative markets in the short term. However, while tge tariffs increased consumer spending for US consumers, there was no increase in domestic markets for Chinese consumers[24].

China, which diversified its export destinations, particularly toward the EU and Southeast Asian (ASEAN) countries in the following period, has expanded overall trade turnover, except for the years 2019 and 2023, by compensating for its exports since the onset of the trade war.

Conflicts occurring outside these two countries have repeatedly influenced the global economy. In today's era, globalization has accelerated, while economic integration and cross-border relations have intensified; when relations deteriorate, even a certain level of economic interdependence can cause serious losses. Following the 2008 financial crisis, the rise in trade wars led to fears of major countries adopting protectionist policies. A clear example is the trade war between the United States and China, the world's two major trade engines. Despite their economies' growing interdependence, tensions escalated due to growing trade deficits, shifting political priorities, and related factors. This conflict impacts not only China's and America's economies, but the entire world.

Because of the trade war, for a time the powers seemed unable to be victorious; the levels of tariffs were too high for any economy to move toward development. The dispute significantly affected the power of these nations. It is said that the tariffs war would influence the trade cycle, and it would affect production and investment[3].

While the trade war created significant short-term challenges for certain countries, it also brought notable prospects for others in the region. As the United States and China re-examined their partnerships against the backdrop of trade conflicts, the EU and Central Asian countries' dynamics changed somewhat; the disagreement between China and the US—the two primary economic partners—has been a source of concern to some extent. Nevertheless, the trade volumes of regional countries with both the US and China have grown substantially.

Compared to 2018, America's trade volume with ASEAN countries increased by 64.6% ($196.6 billion) in 2023, while its turnover with China increased by 90.8% ($433.16 billion). ASEAN has been impacted by the trade war, particularly in electronics, considering that China is its top trading partner. Even though supply chains were reshaped as a result of the trade war, relocations can bring in new opportunities for ASEAN economies. Only a few countries have reported significant GDP increases when it comes to India. In recent years, the mobile manufacturing industry has experienced reappearance with mobile device manufacturers looking to expand production plants in India.

In fiscal 18-19, India's exports to China increased. Cloth, polythene, and synthetic organic compounds also significantly grew in exports, while imports of some categories—such as agricultural goods—shifted. China lifted import duties on imports from the United States; India's trade surplus with the United States increased[4]. In addition, after the trade war, China's turnover with African countries also increased. In 2023, China's trade with African countries reached a record level ($282 billion), and as a result China became the main trading partner of the African continent [14]. The total trade turnover of African countries with the US also increased, but not as much; trade with China rose to $675 billion in 2023[18]. As a result of a sharp increase in China's trade with EU countries—especially in export volumes to the region—total trade volume increased by 39.1% in 2023 compared to 2018.

This growth has led to a reverse trade deficit between EU countries and China. America's total trade with EU countries increased by 14.6% ($417.28 billion); unlike US–China trade, EU countries have a trade surplus in their trade with the US. Trade relations continue to grow, especially against the backdrop of the ―One Belt, One Road‖ initiative. China's trade volume with these countries increased by 130.8% ($1.53 trillion) in 2023 compared to 2018, reaching to $2.7 trillion. According to statistics, after the trade wars—and due to a ―hysteresis‖ effect—trade volumes increased for both countries, especially China's trade with others, which rose significantly and continued to increase. According to statistical calculations, a 3% increase in world trade has been recorded as a result of the trade wars. Considering that China has increased trade relations primarily with developing countries, we can see that the trade war brought significant advantages to these countries in the form of rising trade volumes and improved economic indicators.

In recent years, ―trade wars‖ have become fundamental economic tools in the modern age, with the United States most recently implementing this strategy against China. Since the early 21st century, China has become a global power, showing high economic growth, significantly increasing its exports and creating a considerable trade surplus with the US—which in turn has intensified America's overall trade deficit. Beyond its economic performance, China has already become a ―global power‖ through projects like BRICS and the Belt and Road Initiative. Shortly after Donald Trump came to power in 2018, he significantly raised tariffs on imports from China in order to reduce imbalances and weaken China's political and economic influence in general. He imposed customs duties on about [$380 billion] of traded goods and services. Given that China shares over 60% of America's total trade deficit, Washington repeatedly accused Beijing of intellectual-property breaches (worth over $100 billion) and emphasized that such practices erode unfair competition. Against this backdrop, trade between the US and China fell: by 2019, compared to 2018, US imports from China, exports to China, and overall trade volume decreased by 16.6% ($89.billion), 11.5% ($13.8 billion), and 15.7% ($103.2 billion), respectively. This reduced the US trade deficit with China by 18.1% ($75.6 billion). The downward trend continued into 2020, and the US trade deficit with China shrank by another 26.7%.

In 2021–2022, due to a shift in US policy and the implementation of tariffs at a relatively moderate pace, there was renewed growth in bilateral trade. By 2023, both the US trade deficit with China and the total trade deficit rose significantly, with the total deficit reaching a 10-year high ($690.9 billion). Both the US trade deficit with China and the total trade deficit experienced growth; however, China's share in the total deficit declined from 60% to 36%.

In the following period, geopolitical tensions, global economic and political polarization, and expansion of tariff measures across multiple sectors contributed to a deterioration in international trade relations. Overall trade turnover decreased by 16.8% in 2023; thus, the US deficit with China decreased by 26.9% ($100.3 billion), and the total trade deficit decreased by 18.7% ($171.9 billion), reducing China's share of the deficit to 36%. This downward trend has continued into 2024 and is expected to persist depending on geopolitical and geoeconomicdynamics worldwide.

The economic confrontation between the two major powers also ―leaked‖ into other regions. In the early days, both countries experienced significant economic setbacks: the United States faced rising unemployment, while China struggled with uncertainty in production. This situation also affected dependent economies that were tied to their supply chains, particularly those reliant on imported components. In the face of declines in real incomes (up to $1.4 billion per month), falling tax revenues, reduced consumption, and job losses (about 300,000), GDP fell by around 0.3% in the United States. In the first years when tariffs were imposed.

Meanwhile, supply-chain disruptions in China compelled manufacturers to look for alternative markets, thereby generating additional expenditures and economic losses. A number of regional and even extra-regional countries—particularly within ASEAN and ―Belt and Road‖ initiative participants—faced uncertainty in the short term but ultimately achieved significant economic benefits by increasing trade relations with China and the United States, primarily through increased exports. According to estimates, the US–China trade conflict contributed to a 3% revival in global trade indicators. Benefiting from a ―bystander effect,‖ countries strengthened trade relations with both powers. Compared to 2018, the trade volume of China and the United States with ASEAN countries increased by 90.8% and 64.6% in 2023 (an average of $433.16 bn and $196.6 bn). This dynamic—without being directly involved in the conflict—also expanded China's trade volume with ―Belt and Road‖ countries that the US does not approve of, rising by 130.8% (to $1.63 trillion) in 2023 versus 2018.

Following US-imposed quotas on agricultural imports in the 1990s, China gradually repositioned itself as a principal economic and political partner; in subsequent years, trade relations between China and the European Union experienced marked expansion. After the trade war and the Russia–Ukraine war, in 2023 China's trade turnover with EU countries increased by 14.6% in the same period. A crucial distinction lies in the trade balance: China had a significant trade surplus, while the

United States consistently incurs a substantial deficit. This dynamic makes the United States a comparatively more economically —efficient‖ partner for the EU.

Both China and the United States strengthened their economic engagement with African countries between 2018 and 2023, reaching $282 billion and $67.5 billion in trade, respectively. Statistical indicators demonstrate that while the trade conflict has harmed many countries in the short term, it has simultaneously created certain opportunities for developing economies. A key factor behind this dynamic has been China‗s diversification strategy, which has achieved higher growth rates in their GDP. However, geopolitically polarized nations may face potential setbacks due to increasing tensions between China and the US. The re-election of Donald Trump—who calls himself the —tariff man‖ and initiated the trade war—is expected to lead to new tariffs against China. Such measures could lead to losses, especially for countries that have strengthened their economic ties with China, and the risk of escalation from tariffs to sanctions could harm both these countries and the global economic system.

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