



Shaping the Global Business Environment on the United States-China Trade War: Exploring Causes, Unfolding Events, and Global Impacts

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Abstract: This paper provides a comprehensive analysis of the United States-China trade war, examining its causes, unfolding events, and significant impacts on global trade, economic stability, and bilateral relations. The research objectives are threefold: (1) to analyze the key causes and concerns that led to the initiation of the trade war, including trade imbalances, intellectual property theft, state subsidies, and national security concerns; (2) to assess how the trade war events unfolded, characterized by escalating tariffs and retaliatory measures across distinct phases; and (3) to examine the significant impacts and consequences of the trade war on global trade, economic stability, and bilateral relations, with a focus on global supply chain disruption, economic effects, the agriculture sector, technological competition, and geopolitical implications. The findings highlight the disruptive effects of the trade war on global supply chains, increased costs for businesses and consumers, negative economic consequences for both countries, challenges in the agriculture sector, intensified technological competition, and strained U.S.-China relations with broader geopolitical implications. Addressing the underlying concerns, promoting dialogue, and fostering cooperation between the United States and China are emphasized as crucial steps toward resolving the conflict and achieving a more stable and mutually beneficial trade relationship. This study contributes to the understanding of the trade war's multifaceted nature and underscores the importance of international collaboration and fair trade practices in shaping a prosperous global business environment.

Keywords: United States-China trade war, Global trade, Economic stability, Bilateral relations, Trade imbalances

Introduction

The United States-China trade war has significantly impacted global trade, economic stability, and bilateral relations. Addressing the underlying concerns, promoting dialogue, and fostering cooperation will be crucial to resolving the conflict and achieving a more stable and mutually beneficial trade relationship between the two nations. International collaboration and adherence to fair trade practices will play a pivotal role in ensuring a prosperous global economy.

The United States-China trade war refers to a protracted and escalating economic conflict between the two global superpowers that commenced in 2018. The trade war has had far-reaching implications for global trade, economic stability, and bilateral relations between the United States and China. This study aims to provide a comprehensive analysis of the trade war, examining its causes, impacts, and potential future developments.

Background and Causes

The trade war was triggered by the United States' concerns regarding China's trade practices and economic policies. Some key factors that contributed to the escalation of the conflict include:

- Trade Imbalances:** The United States has long been troubled by its significant trade deficit with China, which it believes is the result of unfair trade practices and currency manipulation.
- Intellectual Property (IP) Theft:** The United States accuses China of widespread IP theft, including forced technology transfers, cyber espionage, and inadequate protection of intellectual property rights.
- State Subsidies and Industrial Policies:** The United States has raised concerns about China's state subsidies and industrial policies that allegedly distort global markets and create an uneven playing field.
- National Security Concerns:** The United States considers China's rapid technological advancements, particularly in sectors like 5G, artificial intelligence, and robotics, as a potential threat to its national security.

Key Events and Phases

The trade war has unfolded in several phases, characterized by escalating tariffs and retaliatory measures:

- Phase 1 (2018):** The initial phase saw the United States imposing tariffs on Chinese goods worth \$50 billion, primarily targeting industries such as steel, aluminum, and machinery. China responded with retaliatory tariffs on U.S. goods.
- Phase 2 (2019):** Both countries escalated the conflict by imposing additional tariffs on each other's goods. The United States imposed tariffs on approximately \$200 billion worth of Chinese imports, while China retaliated with tariffs on U.S. goods.

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- c. Phase 3 (2020-2021): Amid the COVID-19 pandemic, tensions eased temporarily as both countries signed the Phase 1 trade deal, which included commitments related to intellectual property, technology transfer, and agricultural purchases. However, many underlying issues remained unresolved.
- d. Phase 4 (2022-present): Despite the Phase 1 agreement, tensions have resurfaced. Both countries have continued to impose tariffs and non-tariff barriers, with a particular focus on critical technologies and supply chains.

Impacts and Consequences

The trade war has had significant impacts on various aspects:

- a. Global Trade Disruption: The trade war disrupted global supply chains, leading to increased costs for businesses and consumers worldwide.
- b. Economic Effects: Both countries experienced negative economic consequences, including decreased export levels, reduced foreign direct investment, and increased uncertainty for businesses.
- c. Agriculture Sector: The U.S. agricultural industry suffered due to retaliatory tariffs, while China faced challenges in meeting its agricultural demands.
- d. Technological Competition: The trade war intensified the race for technological dominance, with both countries investing heavily in research and development to gain a competitive edge.
- e. Geopolitical Implications: The trade war has strained U.S.-China relations, leading to broader geopolitical tensions and a potential decoupling of the world's two largest economies.

Research Objectives:

- To analyze and understand the key causes and concerns that led to the initiation of the United States-China trade war, including trade imbalances, intellectual property theft, state subsidies, and national security concerns.
- To examine how the trade war events unfolded, including the different phases characterized by escalating tariffs and retaliatory measures.
- To assess the significant impacts and consequences of the trade war on global trade, economic stability, and bilateral relations between the United States and China.

Research Questions:

- 1 What were the key causes and concerns that led to the initiation of the United States-China trade war, including trade imbalances, intellectual property theft, state subsidies, and national security concerns?
- 2 How have the trade war events unfolded, including the phases characterized by escalating tariffs and retaliatory measures?
- 3 What are the significant impacts and consequences of the trade war on global trade, economic stability, and bilateral relations between the United States and China, particularly in terms of global supply chain disruption, economic effects, the agriculture sector, technological competition, and geopolitical implications?

Theoretical Framework

The theory of comparative advantage, developed by David Ricardo, is utilized to analyze the trade imbalances between the United States and China. This theory suggests that countries should specialize in producing goods and services in which they have a comparative advantage, meaning they can produce them at a lower opportunity cost compared to other countries. By examining the concept of comparative advantage, the study can assess the economic gains and losses resulting from the trade war, the rationale behind the targeted industries, and the potential consequences of disrupting established supply chains.

The political economy perspective is employed to analyze the underlying causes and drivers of the United States-China trade war. This perspective focuses on the interplay between economic factors and political considerations in shaping trade policies. By adopting a political economy lens, the study can delve into the motivations behind protectionist measures, such as tariffs and non-tariff barriers, and explore how domestic political dynamics, lobbying, and public opinion influence trade policy decisions. Additionally, this perspective allows for an examination of the role of international institutions, negotiations, and geopolitical factors that shape the trade war's trajectory and potential outcomes.

With the help of the above two theories, the study can provide a comprehensive analysis of the trade war's impact on global business investment, market access, and the competitive landscape. The theory of comparative advantage helps assess the economic efficiency and potential gains from trade, while the political economy perspective provides insights into the underlying political motivations, institutional dynamics, and broader geopolitical implications of the trade war. Together, these theories offer a well-rounded understanding of the complex interplay between trade policies, economic stability, and international relations in the global business environment.

Literature review

David Ricardo's groundbreaking work in "On the Principles of Political Economy and Taxation" introduced the theory of comparative advantage. He demonstrated that countries can benefit from specializing in the production of goods with lower opportunity costs compared to other countries^[1].

Paul Samuelson expanded on Ricardo's theory and introduced the concept of gains from trade. He emphasized that trade allows countries to consume a more diverse range of goods and services at lower costs, enhancing overall welfare^[2].

Robert Torrens contributed to the understanding of comparative advantage by focusing on the role of transportation costs in shaping trade patterns. His work highlighted the significance of cost factors beyond the production stage^[3].

Eli Heckscher and Bertil Ohlin developed the Heckscher-Ohlin model, which extended the theory of comparative advantage. They incorporated differences in factor endowments, such as labor and capital, across countries as key determinants of trade patterns^[5].

Paul Krugman, a Nobel laureate, has made substantial contributions to trade theory, particularly through his work on the new trade theory. He explored how economies of scale and product differentiation contribute to trade patterns, going beyond the traditional comparative advantage framework^[6].

Susan Strange's work focused on international political economy, exploring the power dynamics and interests that shape global economic relations. Her books "States and Markets: An Introduction to International Political Economy" and "The Retreat of the State: The Diffusion of Power in the World Economy" provide valuable insights into these dynamics^[7].

Dani Rodrik's research focuses on the political factors that influence economic policymaking and the tensions between globalization and national sovereignty. His books "Has Globalization Gone Too Far?" and "The Globalization Paradox: Democracy and the Future of the World Economy" explore these issues in-depth^[8].

Discussion

1 What were the key causes and concerns that led to the initiation of the United States-China trade war, including trade imbalances, intellectual property theft, state subsidies, and national security concerns?

Trade Imbalances: The United States has been troubled by its significant trade deficit with China. The US believes that unfair trade practices and currency manipulation by China have contributed to this imbalance.

Intellectual Property (IP) Theft: The United States accuses China of engaging in widespread IP theft. This includes forced technology transfers, cyber espionage, and inadequate protection of intellectual property rights, which has raised concerns about the protection of US innovations and technology.

State Subsidies and Industrial Policies: The United States has raised concerns about China's state subsidies and industrial policies, which are believed to distort global markets and create an uneven playing field for businesses.

National Security Concerns: The United States considers China's rapid technological advancements, particularly in sectors like 5G, artificial intelligence, and robotics, as a potential threat to its national security^[9]. This has heightened concerns about the transfer of sensitive technologies and the impact on US technological competitiveness.

2. How have the trade war events unfolded, including the phases characterized by escalating tariffs and retaliatory measures?

the trade war events between the United States and China have unfolded in distinct phases characterized by escalating tariffs and retaliatory measures. These phases can be summarized as follows:

Phase 1 (2018): The trade war began with the United States imposing tariffs on \$50 billion worth of Chinese goods, primarily targeting industries such as steel, aluminum, and machinery. In response, China implemented retaliatory tariffs on U.S. goods.

Phase 2 (2019): Both countries escalated the conflict by imposing additional tariffs on each other's goods. The United States imposed tariffs on approximately \$200 billion worth of Chinese imports, while China retaliated with tariffs on U.S. goods.

Phase 3 (2020-2021): Amid the COVID-19 pandemic, tensions eased temporarily as both countries signed the Phase 1 trade deal. This agreement included commitments related to intellectual property, technology transfer, and agricultural purchases. However, many underlying issues remained unresolved despite the partial détente.

Phase 4 (2022-present): Tensions resurfaced despite the Phase 1 agreement. Both countries have continued to impose tariffs and non-tariff barriers, with a particular focus on critical technologies and supply chains. This phase is characterized by ongoing trade disputes and economic tensions.

Throughout these phases, the trade war has had significant impacts on various aspects. Global supply chains have been disrupted, leading to increased costs for businesses and consumers worldwide. Both countries have experienced negative economic consequences, including decreased export levels, reduced foreign direct investment, and increased uncertainty for businesses^[10]. The agriculture sector has been particularly affected, with the U.S. agricultural industry suffering due to retaliatory tariffs, while China has faced challenges in meeting its agricultural demands. The trade war has also intensified the race for technological dominance, as both countries invest heavily in research and development to gain a competitive edge. Moreover, the trade war has strained U.S.-China relations, resulting in broader geopolitical tensions and the potential decoupling of the world's two largest economies.

Addressing the concerns underlying the trade war, promoting dialogue, and fostering cooperation between the United States and China are considered crucial steps toward resolving the conflict and achieving a more stable and mutually

beneficial trade relationship. International collaboration and adherence to fair trade practices play a pivotal role in ensuring a prosperous global economy^[11].

3. What are the significant impacts and consequences of the trade war on global trade, economic stability, and bilateral relations between the United States and China, particularly in terms of global supply chain disruption, economic effects, the agriculture sector, technological competition, and geopolitical implications?

Global Supply Chain Disruption: The trade war has disrupted global supply chains, leading to increased costs for businesses and consumers worldwide. The imposition of tariffs and the uncertainty surrounding trade policies have compelled companies to reassess their supply chain strategies, potentially altering production locations and supplier relationships.

Economic Effects: Both countries have experienced negative economic consequences as a result of the trade war. There have been decreased export levels and reduced foreign direct investment, as businesses face increased costs and uncertainty. The trade war has affected economic growth prospects and financial markets, contributing to market volatility and decreased business confidence.

Agriculture Sector: The agriculture sector has been significantly impacted by retaliatory tariffs imposed during the trade war. The U.S. agricultural industry has suffered, as China, one of its major export markets, implemented tariffs on agricultural products such as soybeans and pork. This has resulted in lower demand and financial strain for American farmers. On the other hand, China has faced challenges in meeting its agricultural demands due to limited access to certain U.S. agricultural products.

Technological Competition: The trade war has intensified the race for technological dominance between the United States and China. Both countries have increased investment in research and development to gain a competitive edge in critical sectors such as 5G, artificial intelligence, and robotics. This heightened competition has implications for the future of global technological leadership and innovation^[12].

Geopolitical Implications: The trade war has strained bilateral relations between the United States and China, leading to broader geopolitical tensions. The conflict has become intertwined with other geopolitical issues, such as national security concerns and strategic competition. It has raised questions about the future trajectory of U.S.-China relations, the potential for a decoupling of the two economies, and the reshaping of global economic and geopolitical dynamics.

These impacts and consequences highlight the far-reaching implications of the trade war, extending beyond economic dimensions to geopolitical and strategic realms. Addressing the underlying concerns, promoting dialogue, and fostering cooperation between the United States and China are crucial steps towards resolving the conflict and achieving a more stable and mutually beneficial trade relationship. International collaboration and adherence to fair trade practices play pivotal roles in ensuring a prosperous global economy and minimizing the negative effects of the trade war on various sectors and stakeholders.

Summary of key findings

The initiation of the United States-China trade war was driven by key causes and concerns, including trade imbalances, intellectual property theft, state subsidies, and national security concerns. The United States has been troubled by its significant trade deficit with China, attributing it to unfair trade practices and currency manipulation. The US accuses China of widespread intellectual property theft, including forced technology transfers and cyber espionage. Concerns have also been raised about China's state subsidies and industrial policies, which are seen as distorting global markets and creating an uneven playing field. Additionally, the US considers China's rapid technological advancements, particularly in sectors like 5G and artificial intelligence, as a potential threat to its national security and technological competitiveness.

The trade war events between the United States and China unfolded in distinct phases characterized by escalating tariffs and retaliatory measures. The phases include Phase 1 (2018) with initial tariffs imposed by the United States and retaliatory tariffs by China, Phase 2 (2019) with additional tariffs imposed by both countries, Phase 3 (2020-2021) marked by a temporary easing of tensions through the Phase 1 trade deal, and Phase 4 (2022-present) with resurfacing tensions and continued imposition of tariffs and non-tariff barriers.

The trade war has had significant impacts and consequences on global trade, economic stability, and bilateral relations between the United States and China. It has disrupted global supply chains, leading to increased costs for businesses and consumers worldwide. Both countries have experienced negative economic consequences, including decreased export levels, reduced foreign direct investment, and increased uncertainty for businesses. The agriculture sector has been significantly affected, with the U.S. agricultural industry suffering from retaliatory tariffs and China facing challenges in meeting agricultural demands. The trade war has intensified the race for technological dominance, with increased investment in critical sectors by both countries. Geopolitically, the trade war has strained bilateral relations, raised broader geopolitical tensions, and raised questions about the future trajectory of U.S.-China relations and global economic and geopolitical dynamics.

Conclusion

In conclusion, the United States-China trade war has had far-reaching and profound impacts on global trade, economic stability, and bilateral relations. The conflict was driven by concerns such as trade imbalances, intellectual property theft, state subsidies, and national security. The United States' worry about its trade deficit and China's unfair practices, coupled with China's technological advancements, sparked the trade war.

The trade war unfolded in distinct phases marked by escalating tariffs and retaliatory measures. Despite temporary easing during the Phase 1 trade deal, underlying issues persisted, leading to renewed tensions and ongoing trade disputes.

The consequences of the trade war have been significant. Global supply chains were disrupted, raising costs for businesses and consumers worldwide. Both countries experienced economic downturns, reduced export levels, and decreased foreign direct investment. The agriculture sector suffered from retaliatory tariffs, impacting the U.S. agricultural industry and China's agricultural demands. Technological competition intensified, with both nations investing heavily. Geopolitically, the trade war strained U.S.-China relations and exacerbated broader geopolitical tensions.

Resolving the trade war requires addressing its causes through dialogue, cooperation, and adherence to fair trade practices. This study emphasizes the importance of considering the complex interplay between economics and politics in shaping the global business environment. It underscores the need for policymakers to promote balanced and fair trade practices to foster a stable and mutually beneficial global economy. By addressing underlying concerns, fostering cooperation, and promoting fair trade, a more prosperous global business environment can be achieved.

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