

**The United States-China Trade War:  
Implications for the Liberal World Order**

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## **Topic: The United States-China Trade War: Implications for the Liberal World Order**

### ***Abstract***

*This research focuses on the implications of trade war between United States and China during Trump era. This study explains the reasons that led trade conflict to trade war between two powers. It also highlights the policy measures taken by both states. Trade conflict converted into trade war and how it is a threat to a rule-based system. Tariff hike by one state begets the tariff rise from the other side. China's unprecedented rise in the past two decades and China's growing trade has irked the US. United States has been the advocate of free trade and economic liberalism itself. However, in the wake of rising China, it has set aside its own principles and is adamant to curb expansion of Chinese goods. This tension has led to daggers drawn between the two giants that are hampering world trade. Apart from it, as all states strive for power so the weak and vulnerable states are in a state of utter shamble. Their interests are at stake. The closely allied states to China may face wrath of the US and vice versa. There is a general opinion taken by the researcher while doing this research from different primary and secondary sources that a candid clear deal between the two powers is not only necessary for world peace but smooth grow of world economy at every level too. Both the powers must remain intact for bringing valuable solution to their trade imbroglio. The research also presents an analysis of overall world trade and contribution of the two worthy states.*

### **Key Terms**

US, China, Trade War, Tariffs, Liberal Word Order, Trade deficit, Protectionism, Neo-mercantilism, Political Economy, Free Trade

## Acronyms/Abbreviations

USA	United States of America
GDP	Gross Domestic Products
GNP	Gross National Product
GATT	General Agreement on Tariff and Trade
WTO	World Trade Organization
PNTR	Permanent Normal Trade Relations
NATO	North Atlantic Treaty Organization
PRC	Peoples Republic of China
MFN	Most Favored Nation
ATC	Agreement on Textile and Clothing
BRICS	Brazil, Russia, India, China and S Africa
BRI	Belt and Road Initiative
NDV	New Development Bank
OBOR	One Belt One Road
ASEAN	Association of South East Asian Nations
AIIB	Asian Infrastructure, Investment Bank
SEATO	South aEast Asian Treaty

## Introduction

World Order refers to the way civilizations believe how things should run. They share beliefs and values, how the government should run and who has power. The most stable and influential world order was shaped in Europe, when the foundations of new way of conducting politics were laid with peace of Westphalia. The representatives of every state agreed that every state is sovereign and they recognized different in the Europe at that time. This new system made Europe more stable. The central principal of the Treaty of Westphalia i]s still part of present day European politics.<sup>1</sup>

Take the example of Europe they chose democratic form of government and they want democratic order globally. After the end of World War II Communist Soviet Union and Capitalist run United States started to compete for power in Global Politics.

As the Cold War drew to a close, the United States (US) was propelled to the forefront of global significance. No one could challenge her financial dominance, military superiority, or political power since she had no competitors. In 2001, when the US and its allies started an attack on Afghanistan, the situation experienced a dramatic transformation. It was the first shot fired in what had the potential to become the largest conflict in the history of human conflict. As a direct result of the war, not only has the economy been severely harmed, but so has the entire fabric of everyday life in the US. As the US' influence and power began to decline, other countries, most notably China and Russia, rose to prominence and helped to fill the resulting power vacuum. According to many scholars China is not posing a direct threat to the existing system rather it i]s benefiting from it. In the recent past China's FDI in different regions of the planet has increased

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<sup>1</sup> Kissinger, Henry; "World Order" (2014) p. 1-15

exponentially. Also, China is an active member of global community and is part of so many different inter-governmental organizations such as WHO, IMF, BRICS, SCO etc.

China has taken so many different initiatives to strengthen its economy. Due to China's green energy initiative, the US was able to retain its recent momentum. It was successful in expanding both its average production workforce and the size of its global customer base. The Chinese have achieved such a level of proficiency in the banking sector that they now control the American market. The 'opportunity struggle' between the US and China, sometimes referred to as the 'opportunity battle', is being pushed to its limit by financial difficulties on both sides. Despite the fact that countries are making less progress in this conflict, globalization is thriving<sup>2</sup>.

China has surpassed the US as the world's largest exporter of diversified goods. In 2015, China's gross domestic product (GDP) accounted for 16.1% of the sector's total, placing it in second place after the US at 23.3%.<sup>3</sup> China's GDP is greater than that of the US when the cost of purchasing electricity is factored in. In 2002, there were 80 million people in China who belonged to the middle class; by 2020, this number is projected to rise to 700 million, representing more than fifty percent of the total population.<sup>4</sup> The US exports only \$1,546.72 million annually, which is significantly less than China's \$2,263.3 billion annual export volume<sup>5</sup>. China's export volume is far higher.

China has traditionally been the center of low-value industry in the region, but the US is rapidly becoming a global export powerhouse. Despite the fact that econometric models have questioned

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<sup>2</sup> C.F. Bergsten, *China and the United States: The Contest for Global Economic Leadership*. *China & World Economy*, 26(5), 12-37 (2018)

<sup>3</sup> Kapustina, Larisa, Ľudmila Lipková, Yakov Silin, and Andrei Drevaev. "US-China Trade War: Causes and Outcomes." *SHS Web of Conferences* 73, no. 1 (2020): 01012. <https://doi.org/10.1051/shsconf/20207301012>

<sup>4</sup> *Ibid*

<sup>5</sup> *Ibid*

China's rising economic significance, the US continues to dominate the global economy and markets for stocks, credit, energy, and commodities. Therefore, it is possible that there is no single, unified explanation for why the two economies have developed at such different rates throughout time. The US' goal of absolute dominance in the international monetary system is in direct conflict with the widening trade deficit between the US and China, as well as the rising competitiveness of high-tech companies based in the People's Republic of China (PRC) and China's funding exports.

The US and other nations have accused the Chinese government of financial misbehavior, including intellectual property rights violations and preferential treatment of state-owned enterprises (SOEs) in China. These charges have sparked a change conflict between the two nations. First, there is evidence of intellectual property theft by both the Chinese government and private companies, such as Huawei, through the use of spyware and hackers to obtain access to sensitive material (in spite of the reality that no proof for this has however emerged). Second, it appears that China's strategy for financial manipulation, which includes state subsidies for SOEs and preferential treatment for SOEs over foreign institutions, violates WTO rules guaranteeing a fair playing field for international trade.<sup>6</sup> In other words, the US is traumatizing Beijing into making significant fundamental changes to the way it operates the Chinese economic engine, namely abandoning or reducing its commitment to a regulated banking machine.

This conflict in some ways can be viewed as a war of capitalism. China's rise has demonstrated that countries able to regulate their economy, primarily through protectionist measures in specific areas, are capable of achieving outstanding economic success. Since 1981, the 'China

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<sup>6</sup> T.T.L. Chong, X. Li, Understanding the China–US trade war: causes, economic impact, and the worst-case scenario. *Economic and Political Studies*, 7(2), 185-202 (2019)

model' of nationalism has pulled over 500 million people out of poverty, reducing the proportion of those living on less than a dollar a day from 88% to 6.5%; meanwhile, the poverty rate in the US has stayed relatively constant between 11.5% and 15%. This fact irritates modern proponents of global free market capitalism; nevertheless, ironically, the US' mandated changing price lists harm the openness of global trade, which is the foundation of this order, by obstructing China's opening of its economy. China's upward drive offers an existential challenge to the traditional applicability of the Western-oriented capitalism model, notwithstanding the fact that China's middle-class expansion is inevitably slowing.

The US government alleges that China engages in unfair exchange practices by taking advantage of the benefits afforded by currency devaluation and subsidy programs made possible by China's World Trade Organization membership (WTO). The US has levelled several charges against China, including theft of trade secrets, infringement of intellectual property, and failure to meet environmental regulations. Despite the fact that one of the stated goals of the Trump administration is to "make America great again," many experts believe that the modern government operates almost exclusively in its own self-interest. Some individuals have referred to the protectionist position maintained by the US government in its trade policy as "policy of national egoism" and "economic terrorism."<sup>7</sup> Partners in American corporations, governments, and casual unions are not required to disclose their financial activities. This guideline applies to both formal and informal associations. It is becoming increasingly apparent that the US is abandoning the concept and principle of unrestricted trade in order to maintain its reputation as the global leader. This is due to the fact that no nation can challenge American protectionism without financial allies, and the US is abandoning the principle and philosophy of free trade.

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<sup>7</sup> V.V. Markov, China and the USA: From economic rivalry in Asia-Pacific to trade war. The Herald of the Diplomatic Academy of the MFA of Russia. Russia and the World, 4(18), 110-119 (2018)

Consequently, de-globalization strategies should be implemented everywhere in the world's economic system, leading to the development of regional mega-unions.<sup>8</sup>

Currency concerns have never been able to resolve themselves adequately, as evidenced by the history of the international financial system. The US has a track record of success in global change discussions and is able to impose pressure on other states to accept compromises. This is true despite the fact that both parties to the agreement incur losses as a result of the negotiation process. China has confirmed its willingness to reach a compromise on a variety of issues, including the reduction of the bilateral exchange imbalance by \$200 billion and the liberalization of the Chinese home market for American companies. The "Made in China 2025" initiative is at risk due to the restrictions and penalties imposed by the US.<sup>9</sup> To accomplish the latter, the People's Republic of China (PRC) should establish itself as the undisputed leader in 10 distinct technology disciplines. A number of academics have questioned whether or not the US has a fighting chance in its current confrontation with China. There is never a winner in a forex war; rather, there are always three losers: the countries engaged in the conflict, the international trading community as a whole and global economic growth. The exports and other foreign activities of Washington and Beijing, as well as their animosity towards each other, have a substantial impact on the global GDP growth rates, making this a problem of critical importance.

President Trump issued the "Presidential Memorandum Targeting China's Economic Aggression" and imposed price lists on metal and aluminum on March 23, 2018. This event is generally considered the honorable beginning of the exchange war. However, we have already shielded you from the squabbles taking place within the financial families of the US and China.

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<sup>8</sup> Terence Tai-leung Chong and Xiaoyang Li; "Understanding China-US Trade War: Causes, Economic Impact, and the Worst-Case Scenario"

<sup>9</sup> B. Holland, C. Sam, A \$600 Billion Bill: Counting the Global Cost of the U.S.-China Trade War [online], Available at: <https://www.bloomberg.com/graphics/2019-us-china-trade-war-economic-fallout/> (2019)

In 2017, when the World Trade Organization (WTO) granted China market economy status, the US reacted vehemently to this development. The US' early refusal to recognize China's market-based monetary system contributed to the escalation of antagonism between the capitals of the two countries. Trump's endorsement of a nationwide protection strategy in December 2017 illustrates the aggressive approach he is pursuing with China. It restricted China's capacity to invest in the post-American generation, strengthened export controls, and expanded the list of dual-use items that were forbidden from export. Following the establishment of the Entity List by the US Department of Commerce in June of 2020, it has become illegal for American corporations to engage in commercial transactions with any of the 33 Chinese entities included on the listing. Currently, the US Department of Commerce has made public a list of corporations that are not permitted in China.

Despite the agreement struck on the G20 convention, both sides have already begun trading threats to increase fee schedules.<sup>10</sup> Several Chinese companies have indicated that beginning in 2019; they may no longer purchase agricultural products from the US. The US has accused China of manipulating its currency to gain a competitive advantage in the global economy and reduce the effectiveness of price controls. China has responded to the US' imposition of tariffs by filing a third complaint with the World Trade Organization (WTO) in which it doubts the legitimacy of the stated reasons for employing the US. Despite the gains made at the G20 summit, the US imposed tariffs on Chinese imports totaling \$125 billion in December 2018. In retaliation for being presented with this information, China imposed a 5% tariff on crude oil and other shipments from the US worth \$75 billion. Their fight caused tremendous destruction on a global scale as well as on their respective home continents, the US and China placed restrictions

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<sup>10</sup> C. Freund, M. Ferrantino, M. Maliszewska, M. Ruta, Impacts on global trade and income of current trade disputes. *Macroeconomics, Trade Investment (MTI) Practice Notes*, 2, 11 (2018)

on some goods. The imposition of unilateral prohibitions against ZTE and Huawei has resulted in significant harm to their competitiveness and contributed to a slowdown in the expansion of China's high-tech industry. It is quite unlikely that China will make significant concessions to slow down the expansion of the digital banking system. When a country is compelled to compete with American-made goods and services, the US is significantly more likely to spend in research and development of its own innovations.

China's decision in July 2018 to resume importing soybeans from the US after having ceased doing so in July 2018 is one of the maximum contentious issues in international trade. In the final stages of the negotiation process, agricultural exports from the US have emerged as a major cause of conflict. China decided in September of this year (2019) to exempt soybeans and other agricultural items from the planned increase in tariffs as a direct result of this instance. The US attempts to increase the number of available employment in the country by re-industrializing the economy and bringing production jobs back from distant locations. While this is occurring, the country is aggressively searching for ways to reduce the costs associated with maintaining its position as the world's leader. Due to China's Belt and Road Initiative (BRI) expansion, the annual percentage rate at which the US can exercise influence has also decreased (APR).<sup>11</sup> Taking a step back from American narcissism permits us to disentangle the internal and international elements that motivate US protectionism, and this is true in contexts beyond China. As a result of price increases, there may be reduced consumption in the US, which may result in a rise in the production of steel and aluminum products in particular. This fall in consumption is intended to protect domestic businesses from international competition. The fact that the U.S.'s current account stability constantly maintains at zero is excellent news for domestic producers, as

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<sup>11</sup> ibid

it indicates that exports are covering imports. The rising gap in exchange between the US and the People's Republic of China (PRC) is a major contributor to the US' US escalating trade deficit. The US and China are engaged in a heated conflict that is often influenced by four distinct elements.

Among the stated goals of the trade war are the reduction of the trade deficit between the two nations and the acceleration of domestic employment growth in the US. China is directly responsible for an amount equivalent to around 376 billion U.S. dollars (\$796) of the US' 2017 change stability deficit.<sup>12</sup> The change gap between the US and the People's Republic of China (PRC) is among the many problematic aspects of the alternative relationship between the two countries. This issue has steadily worsened over the period of several decades, and there are no indications that it will improve. Chinese exports to the US account for only 19% of total Chinese exports. Despite the fact that 8.3% of American exports are earmarked for the Chinese market, only a small percentage of these shipments actually arrive. In 2018, protectionist regulations had a 21% negative impact on U.S. exports to the People's Republic of China (PRC), but only a 12% negative impact on Chinese exports to the U.S.<sup>13</sup>

These concepts are commonly referred to as the "liberal international order," and they form the basis for contemporary international family members. These include worldwide collaboration through multilateral institutions such as the United Nations and the World Trade Organization, free markets, protection cooperation, promotion of liberal democracy, and management with the

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<sup>12</sup> Office Of The United States Trade Representative Executive Office Of The President. "Findings Of The Investigation Into China's Acts, Policies, And Practices Related To Technology Transfer, Intellectual Property, And Innovation Under Section 301 Of The Trade Act Of 1974," March 22, 2018.

<sup>13</sup> Z. Suisheng, D. Guo, A New Cold War? Causes and Future of the Emerging US-China Rivalry. *Vestnik RUDN. International Relations*, 19(1), 9-21 (2019)

assistance of the US. The US was in an excellent position to establish order in the aftermath of World War II, and they seized the opportunity.

During the course of the last five years, think tanks based in the US and Europe that are concerned with foreign policy have developed an increased level of anxiety regarding dangers to the liberal order of the international system. The hazards posed by "revisionist" developing states and authoritarian regimes like China and Russia are of special concern. China and Russia are two examples. Recent events have given rise to a significant increase in this concern. This catastrophe is a direct outcome of an increase in the number of countries aiming to de-stabilize the free international order, which has led to the current crisis. The crisis itself is a direct result of the current calamity. This issue is a direct consequence of the predicament that now exists.<sup>14</sup> According to this analysis, the victories of anti-liberal and anti-elite populist forces, such as Trump and Brexit, represent an extraordinary challenge to the existing liberal order in the global world.<sup>15</sup> We have not seen this issue supplant Obama's post-Cold War globalist and 'liberal engagement,' but it is already affecting America's role in Asia and its relations with China, particularly in the wake of the trade war between the two countries. This is particularly true in the wake of the trade war between the two countries. This is especially relevant in light of the fact that the two countries are now engaged in a trade war with one another. This is especially important to keep in mind in light of the fact that the two countries are currently waging a trade war against one another. Even though there has not been a concerted effort to withdraw from the region, and even though the signals regarding policy remain unknown, it is possible that involvement in the region will become noticeably less vigorous and liberal in the coming years.

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<sup>14</sup> Odgaard, Liselotte, and Elizabeth C. Economy's. "The Rise of an Illiberal China in a Liberal World Order." *Asia Policy* 13, no. 4 (2018): 150–53. <https://www.jstor.org/stable/26533135>.

<sup>15</sup> Flockhart, Trine, and Li Xing. "Riding the Tiger: China's Rise and the Liberal World Order." JSTOR, 2010. <https://www.jstor.org/stable/resrep13116>.

This possibility arises despite the fact that there has not been a concerted effort to withdraw from the region. Despite the fact that there has not been a coordinated effort to withdraw from the region, this has come to pass. As a result of recent happenings, it is a distinct possibility that the US, which has traditionally upheld liberal values, will make an effort to undermine the liberal order that predominates in the rest of the world. This is a significant possibility because the US has traditionally upheld liberal values. As a consequence of the most recent occurrences, this is now a distinct possibility.

The fundamentals of price lists set on different sorts of goods are the driving force behind the escalation of hostilities between the US and China. Given that each nation is a GATT signatory, this conduct represents a violation of the agreement. One of the causes hastening the end of the unipolar period is China's rising use of strength. Despite having previously maintained a highly restricted commercial sector, China has now opened its doors to international trade and adopted business norms that are generally accepted. China no longer conforms to the standard model of a communist state.<sup>16</sup>

The rise of populism in Western nations is frequently viewed as the most hazardous challenge to liberal internationalism to date. The greatest threat to the existing liberal order in the world is posed by the Trump administration's restrictive measures on the housing market and its antagonistic stances against other countries.

### **Statement of the Problem:**

This study is an effort to examine the US-China Trade War and its implications for the liberal world order. In the Post World War II realm, world order dominated by US is based on

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<sup>16</sup> *ibid*

principles of political and economic liberalism—free and open market democracies. China is adopting Neo-mercantilist policies in its national development and global expansion. China's adopted protectionist policies such as, tariff, export subsidies and other trade protections. For many years, U.S. foreign policy has placed a priority on commerce. This has not only bolstered the economy, but also helped to establish partnerships with nations that share America's interests and values. The political and security interests of the US could be jeopardized if tensions within the alliance intensify due to growing concerns regarding alternative. Since 1945, successive U.S. administrations have estimated the cost of international institutions and norms that aid states in competing, cooperating, and resolving conflicts peacefully. Without strong American leadership and support, this framework will deteriorate, increasing the likelihood of interstate-armed conflict. Historically, mercantilism has reemerged at periods of significant change, when traditional thinking regarding the relationship between politics and economics is challenged. The US has also reacted with a mercantilist approach. Since 2018, U.S President Donald J. Trump administration is also adopting protectionist policies against China to minimize the trade deficit. Both adopt reciprocation tariffs policy to challenge each other. Free and open market is the prime ingredient of liberalism while, this trade war between both powers is causing trade deficit and are against liberal norms.

## **Objectives of the Research**

This study aims to find out the following objectives:

- a) To evaluate the factors that has lead U.S. and China to trade war.
- b) To analyze the implications of US-China Trade War on the global economic growth.
- c) To elucidate the implications of Trade War for the liberal world order.

## Research Questions

- a) What are the factors that led US and China to trade war?
- b) What are the implications of US-China trade war for the liberal world order?
- c) What are the impacts of US-China Trade War on global economic growth?

## Core Argument

This study highlights the trade conflict between United States and China, it escalated in a decade and it is a threat to liberal world order which is a rule based system created on the principles of Free Trade and Economic Liberalism

## Literature Review

In the book "World Order" writer Henry Kissinger explains how throughout the history a complex mechanism has governed international system. The book' explains the different system exist in different parts of the world.<sup>17</sup>

In this article "The Return of Geopolitics: The Revenge of Revisionist Powers" writer Walter Russell Mead describe the post-Cold War geostrategic landscape<sup>18</sup> of the world and how revisionist powers make almost all important regions of the world, an arena of Geopolitical and Geostrategic competition.<sup>19</sup> The West's approach to the scenario of the post-Cold War world has made a great deal of sense, and it is hard to see how world peace can ever be achieved without

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<sup>17</sup> Kissinger, Henry; "World Order"

<sup>18</sup> Mead, Walter Russell. "The Return of Geopolitics: The Revenge of the Revisionist Powers." *Foreign Affairs* 93, no. 3 (2014): 69–79. <https://www.jstor.org/stable/24483407>

<sup>19</sup> *ibid*

replacing geopolitical competition with the creation of a liberal world order. All major states would rather move past geopolitical questions of territory and military power and focus instead on ones of world order and global governance: trade liberalization, nuclear non-proliferation, human rights, the rule of law, climate change, and so on.

In the article “The Rise of China and the Future of the West: Can the Liberal System Survive” writer G. Jhon Ikenberry describe the challenges ahead of China and what are the chances and the challenges for liberal system’s survival. Realists believe that as China gets more powerful and US’ position weakened China will try to influence the international institution and will try device a system which will serve its interest and U.S. and her allies start seeing China as a threat. The U.S-China power shift can be very different from those of the past because China faces an international order that is basically different from those that past rising states challenged.

In the book ”A New Order of Things? China, America, and the Struggle over World Order” G. John Ikenberry argues that how existing US led International order is a threat for new rising powers. He believes that China will face constraints on the pursuit of revisionist agenda and how the existing will incentivize China’a pursuit to surpass US and become world’s largest economy.<sup>20</sup>

In the article “Contemporary Challenges to the U.S.-led Liberal International Order from the US and the Rising Powers of China and Russia” writers Drew Cottle, Angela Keys and Thomas Costigan write about China’s ambitious international infrastructure project the Belt and Road Initiative – has been viewed as a method by which China has been competing with the US for international leadership and influence in the contemporary era. To this end, this article highlights

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<sup>20</sup> G. John Ikenberry”A New Order of Things? China, America, and the Struggle over World Order”

some of the economic, diplomatic, and military challenges that China, Russia and the US have presented to the contemporary liberal international order.

In the article “Understanding China-US Trade War: Causes, Economic Impact, and the Worst-Case Scenario” writer Terence Tai-leung Chong and Xiaoyang Li describe that how International Monetary Fund simulates the economic consequences of mounting China-US trade tensions and warns that should these trade threats materialize, the GDP of the US and China will be reduced by 0.9% and 0.6%, respectively, leading to a 0.4% fall in long-term world GDP. A report from the European Commission in July 2018 suggests that the effect of the trade disputes is not restricted to China and the US. Some journalists and commentators also suggest that the China-US trade war might eventually evolve into a new Cold War, which will severely imperil the stability of the global political and economic environment.<sup>21</sup>

In the article “US-China relations and the Liberal World Order: Contending Elites, Colliding Visions?” writers Naná De Graaff And Bastiaan Van Apeldoorn analyses how America centered liberal order will be dominated by China in the future and how the existing system will be maintained/survived due to colliding visions.<sup>22</sup>

In book “The China-U.S. Trade War and Future Economic Relations” by Lawrence J. Lau argues that the relation between China and the US is arguably the most important bilateral relation in the world today. The U.S. and China are respectively the largest and the second largest economies in the world. However, there exist significant friction and potential conflict in their economic relations. The large and persistent U.S.-China bilateral trade deficit is one of the problems. The

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<sup>21</sup> Terence Tai-leung Chong and Xiaoyang Li; “Understanding China-US Trade War: Causes, Economic Impact, and the Worst-Case Scenario”

<sup>22</sup> Bastiaan van Apeldoorn, Naná de Graaff and Henk Overbeek, ‘Reconfiguration of the global state–capital nexus’, *Globalizations*

impacts and potential impacts of the 2018 trade war between China and the U.S. on the two economies are analyzed and how a “new type of major-power relation” between the two countries can help to keep the competition friendly and avert a war between them is explored.<sup>23</sup>

In book, “The Demise of Free Trade: The U.S.-China Trade War Explained” by Michelle Klieger, explains how tariffs work and their impact on the economy. The US was the global leader in promoting free trade until two years ago. President Donald J. Trump calls himself "Tariffs Man" and uses tariffs as leverage in all types of international negotiations. No country has been impacted more than China. Trump announced tariffs on \$200 billion of additional goods coming from China in 2018. One year later, Trump is considering tariffs on the final \$300 billion of Chinese goods imported from China.<sup>24</sup>

In book “Trade Threats, Trade Wars: Bargaining, Retaliation, and American Coercive Diplomacy” by Ka Zeng, addresses two questions associated with American trade policy, the use of aggressive bargaining tactics to open foreign markets. First, as the country with greater power and resources, why has the US achieved more success in extracting concessions from some of its trading partners than others? Second, why is it that trade disputes between democratic and authoritarian states do not more frequently spark retaliatory actions than those between democratic pairs? Writer finds answers to both of these questions in the domestic repercussions of the structure of trade between the US and its trading partners, whether the US has a competitive trade relationship with its trading partner, or whether trade is complementary.<sup>25</sup>

In book, “The China–US Trade War” by Guoyong Liang, Haoyuan Ding, argues that the U.S.-China Trade War is first major economic conflict to occur in the era of globalization, with its

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<sup>23</sup> Lau, J. Lawrence; “The China-U.S. Trade War and Future Economic Relations”

<sup>24</sup> Klieger, Michelle; The Demise of Free Trade: The U.S.-China Trade War Explained”

<sup>25</sup> Ka, Zeng “Trade Threats, Trade Wars: Bargaining, Retaliation, and American Coercive Diplomacy”

aftermath going far beyond trade. The trade war weighs heavily on China and the US and threatens the world economy and the global trading system. This book provides a timely account of the China–US trade war with insights into its causes and consequences. Examining through the lenses of both history and theory, it analyses the context and causes of the trade war, the intertwined processes of tariff combat and trade negotiations, and the impacts on international trade, foreign direct investment, macroeconomic performance and firm behavior. It also addresses the long-term strategic and geopolitical implications of the ongoing trade and economic confrontation.<sup>26</sup>

Although, abundance of written literature is available on US-China Trade war, its causes and implications but the literature available related to trade war with special context to it's for Liberal World Order is insufficient and also not well organized. Moreover, in Pakistan, very limited work has been done related to the research topic. This study will look into this issue and will discuss the relationship between the US-China trade war and the changing dynamics of the liberal world order.

## **Theoretical Framework**

After the Cold War Era, the world politics remained under the dominance of the US. However, things being changed in the wake of 9/11 where, along with the US, other states like China, Russia and Germany also arise on the world horizon. China's soft power policy across the world

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<sup>26</sup> Guoyong Liang, Haoyuan Ding "The China–US Trade War"

got immense importance and success. It raised not only an Asian economic giant but spread its business entities and links across the world. Hence, became a hard competitor for US.

However, being a superpower, it was never acceptable for the US to see China a trade and, economic as well as political competitor in the world arena. Therefore, a kind of trade war over multiple things broke out. This war/competition did not remain in the two countries just yet reached to almost all parts of the world that effected the developed states, the developing as well as the under developed one. US and China are competing for political influence internationally and to control over natural resources and capture market. Both US and China adopted neo-mercantilist policies to compete economically to support domestic firms.<sup>27</sup> Neo-mercantilism is defined as efforts directed by state to make asymmetric economic gains at the expense of economic competitors.

The neo-mercantilist policies of both powers fuel the competition among them. Neo-mercantilist policies create economic barriers but they do not contradict the development of norms and institutions to promote cooperation and collective actions. Mercantilism is based on the idea of wealth accumulation by the state using vital raw materials. Silver and gold were strategic commodities about the, later replaced by petroleum resources. While the adoption of neo-mercantilist and protectionist policies by a country are to maximize its economic power. Neomercantilism is also based on controlling the movement of the capital while centralizing currency decisions.

The neo-mercantilist states support their publically traded firms, those attain monopoly in international market. These states control "commanding heights" of economy, as state owned

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<sup>27</sup> Ziegler, Charles E., and Rajan Menon. "Neomercantilism and Great-Power Energy Competition in Central Asia and the Caspian." *Strategic Studies Quarterly* 8, no. 2 (2014): 17–41.  
[https://www.jstor.org/stable/26270802#metadata\\_info\\_tab\\_contents](https://www.jstor.org/stable/26270802#metadata_info_tab_contents).

firms act as an agent of the state. Neomercantilism and neorealism starts from the same point. It is presumed that international system is anarchic and state should preserve its national interests, sovereignty and maximize its power to compete in the international system. Neomercantilism explains why and how states should maximize their economic power in the international system. The economic standing on the stage can be maximized in the international system by giving states support through mercantilist policies of the state to critical firms, those supposed to have crucial role in state's power. Neomercantilism is skeptical of the liberalism's assumptions that self-interested firms will, maximize the nation's wealth. Rather it assumes state's guidance and ownership in part or whole will shape the behavior of individuals and firms that will serve the nation's interests.

China being illiberal state adopted certain elements of capitalism and free market economy, which benefits its economic interests. While US being advocate of capitalism and free market economy initially had a liberal approach later adopted these illiberal measures to compete with China. Neomercantilism is an economic nationalism. It shapes the working of international and domestic markets in order to secure political and national interests of the state.

According to Merriam-Webster, neo-mercantilism is "a revived doctrine of mercantilism emphasizing exchange regulations and commercial rules to increase domestic income and employment." In addition, mercantilism, which was prevalent in Europe from the sixteenth to the eighteenth centuries, was an economic strategy to accumulate gold and silver via official control of the currency exchange rate. Protectionist measures led to an increase in import costs, especially for manufactured and completed items. Both mercantilism and protectionism seek to promote trade stability through similar ways, making it difficult to distinguish between the two. In the end, they both believe that trade is a zero-sum game in which the gains of one nation equal

the losses of another. Both groups determine their success or failure based on their capacity to affect positive or negative change in their respective change balances. To restore or reaffirm a nation's historical "grandeur" is fundamental to neo-mercantilism and renaissance mercantilism, its heirs in the 21st century. The current equivalent of mercantilism is cause for concern due to its link with nationalism. This newly introduced political drive elevates the conventional American food of today. Switch from protectionist to neo-mercantilist reporting. The objective is to replace the rules-based system of international commerce that has been created over the previous seven decades with a less complicated "might possibly be right" strategy to pressure trading partners into making concessions.

This study is aimed to explain the trade war between China and US by applying the theory of Neo-Mercantilism. Neo Mercantilism is the theory of International Political Economy that examines the U.S.-China Trade War, its causes, and implications for the Liberal World Order. Mercantilism was an economic system of trade that spanned from the 16th century to the 18th century. Mercantilism was based on the idea that a nation's wealth and power were best served by increasing exports and so involved increasing trade. Under mercantilism, nations frequently engaged their military might to ensure local markets and supply sources were protected, to support the idea that a nation's economic health heavily relied on its supply of capital.

Neo-mercantilism is a policy regime that encourages exports, discourages imports, controls capital movement, and centralizes currency decisions in the hands of a central government. The objective of neo mercantilist policies is to increase the level of foreign reserves held by the government, allowing more effective monetary policy and fiscal policy. Neo mercantilism is considered the oldest school of thought in international political economy (IPE). It is rooted in mercantilism, a preindustrial doctrine, and gained ground during the Industrial Revolution. It is

also considered the IPE counterpart of realism in the sense that both hold that power is central in global relations.

As the world just entered third decade of twenty first century, the US led Liberal Order is struggling as liberal norms are under threat in west itself. When we analyze the ongoing trade dispute between both powers, it's a threat to Liberal Norms and Liberal International Order. United States being its advocate is has failed to uphold those liberal norms due to the global economic shift. China even being an illiberal economy is benefiting from Liberal International Order. As China do not have any alternative model so it will just keep benefiting from the existing order. If we see Chinas economic engagements, China's FDI in Asia and other parts of the world has increased drastically and China is an active member of international organizations UNSC, SCO and BRICS etc. While, when we look' at United Sate's recent economic policies, they are mostly protectionist which is direct threat to US led International Order.

### **Research Methodology**

The research will be based on qualitative methods of research. It will be descriptive and explanatory in nature. Primary, secondary and tertiary sources like documents, books journals, reports, documents and article will be used to collect data for this research. The research is mainly based on the discourse analysis of the Us-China trade war and its implications for the liberal world order. Some quantitative sources will also be used for more clarity.

In order to understand current sequence of research, an effort has been made in this section to disseminate criteria of data collection, analysis and interpretation. The data for this research has been widely collected through secondary sources. Since research in Social Science is Qualitative and not experimental, most of the times analysis is done through explanation of phenomenon.

Similarly, this study focuses on the important topic of social sciences and data is gathered through books and articles.

To understand statistical data on the topic quantitative data has also been studied and analyzed from various different sources such as World Trade Organization World Bank' and IMF's websites. Many graphs and charts were being studied to analyze data on the topic.

Methodology of a research is a systematic process that gives framework to the solution of a problem stated in the study by the researcher. The nature of the study required suitable procedures and techniques to accomplish the results of the research. Research is a composition of processes and principles to collect essential data needed for the fulfilment of the research requirements. So, research is not the tool for data collection only, but it is essential for a researcher to understand the basic process of research through a right way and its use on the required area.

For data collection, mostly secondary data has been used. For this study, available websites of archives and official documents were used. For data collection, visited various libraries and other sources has been used for this study.

### **Significance of the Study**

In global perspective, this research would analyze causes and implications of US-China trade war on liberal world order. This research will help readers, academicians and researchers to have better understanding of US-China Trade War and its implications for the Liberal World Order.

### **De-limitations**

This research covers/is limited to the trade war between China and the US during Trump era, since the beginning of Trump Presidency in 2017. In the process, it evaluates liberal world order, China's inclusion in US-led economic liberal world order, increasing trade/economic interdependence between US and China and the ongoing trade war. This thesis focuses on the Trump Era and concerns itself with that timeframe. This thesis will also give a glimpse of the continuation of Trump era policies under Biden administration.

### **Structure of the Thesis**

The study will be divided into four chapters. The First Chapter "Definition and History of World Order and Trade Wars" discusses the introduction as well as a historical background of world order and trade war. This chapter elaborates the concept of world order and how it has evolved throughout the history. It also discusses the past trade wars and their impacts.

The Second Chapter "Historical Overview of US-China Trade Relations" is about the overall trade relations between both nation states over seven decades. This chapter also elaborates the factors contributed to trade war between US and China.

The Third Chapter "The Escalating US-China Relations and Deepening Trade War" gives an insight to the U.S-China Trade War. It explains how and why trade tensions between US and China escalated during trump era. It highlights the origin] n and causes of the issue.

The Fourth Chapter “Implications of US China Trade War on Liberal World Order” discusses the implications of the Trade War on the Liberal World Order. It elaborates how both states are defying the principles of liberalism and free trade by adopting illiberal and protectionist policies. The Conclusion will highlight the possible outcomes of the situation and how through negotiation both sides can move forward and continue to have good economic relations.

## **Chapter 1: Definition and History of World Order and Trade Wars**

### **1.1 What is World Order?**

World Order is the fundamental concept of International relations, which helps to understand the foreign policy choices and political developments globally. Order is defined as organized or patterned relationship between different units. While international order refers to organized or structured relationships between international actors. There are so many different orders that exist in the world. Most prominent of them is Western Order

With the formation of League of Nations after World War I, US president Woodrow Wilson coined the new term “The New World Order”. League of Nations was considered to be a platform for states to resolve their disputes without starting a war. Woodrow Wilson was hoping that this rules based new order would maintain international peace and security. It would be precise to say the European order transformed to be the global order but before European order there could also be found other inchoate international order in other parts of the world. World order has evolved a long way, the roots of the world order that we see today goes back to the origins. To reach here humanity has passed perilous and long way to establish rule-based and just system where all can co-exist.<sup>28</sup>

#### **1.1.1 Pre-historical Formation of World Order:**

Long before the emergence of complex societies the state level political sphere had started to emerge. During the age of Upper Paleolithic Revolution politics appeared as a realm of relations appeared. Furthermore, relations between individual states are older than the domestic one. The

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<sup>28</sup> Kissinger, Henry; “World Order”, p. 6-12

certain system of states seems to be spread in 3<sup>rd</sup> millennium BC,<sup>29</sup> with which the formal relations between individual states started. We could observe the upward and downward trends in the cycle of political hegemony since 3<sup>rd</sup> BCE.<sup>30</sup> Struggle for hegemony is core of world system and it is as old as the origin of state. The rise and fall of Empires from Afro-Eurasian, Old Babylonian and Old Assyrian to New Kingdom of Egypt and Hittite Empire in 2<sup>nd</sup> Millennium BCE are evident of struggle for hegemony in the ancient world.

The clashes and struggle for power was considered ancestral struggle for order and it also caused the spread of technological innovations such iron metallurgy faster in 2<sup>nd</sup> and 1<sup>st</sup> millennium BCE. Technological advancement has always been triggered by violent fights since ancient times. The political picture and world system we see today has gone through countless transformations since Middle Ages. Significant transformations can be observed in balance for power during history.

Ideological factor also has very significant impact on balance of power system. The idea of confrontation between Europe and Asia started with Greco-Persian wars. Since the rise of Islam in Middle-Ages, the ideological pattern for struggle between East and West can be observed. The conflict between Christianity and Islam in the Middle-Ages made significant and permanent contribution to the formation of international order. The legitimate political system within the state and other principles get slowly institutionalized during modern ages. The modern age of discoveries introduced new directions in international order. First, the political arena expanded to the whole world. Second, last four or more centuries are defined by establishment and posting of

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<sup>29</sup> Spruyt H. 2000. The End of Empire and the Extension of the Westphalian System: The Normative Basis of the Modern State Order. *International Studies Review* 2(2): 65–92.

<sup>30</sup> Grinin A. L., and Grinin L. E. 2015. The Cybernetic Revolution and Historical Process. *Social Evolution and History* 14(1): 125–184.

colonial possessions. One can see there was a certain unstable balance of power after numerous long lasting and ruinous wars in the second half of 15<sup>th</sup> century.<sup>31</sup>

### **1.1.2. Creation of Modern World Order:**

In 16<sup>th</sup> century, with international order becoming the system of relationship among states, diplomatic relations between Empires established. Peace of Westphalia in 1648, not just ended thirty years deadly war in Central Europe but it also provide the prototype for the legal system emerged in international relations. The concept of ‘sovereignty’ was manifested both in domestic policies and foreign policy. In 1789, after French Revolution the concept of sovereignty came to forefront.<sup>32</sup>

The 16<sup>th</sup> century religious wars were the legacy of thirty years war. The peace of Westphalia lead to balance of power system and introduced two principles of foreign policy

- a) Maintain balance of power by supporting weaker coalition against the stronger one
- b) Prioritize national interest over others i.e. religious or ideological

According to Henry Kissinger Cardinal Richelieu former Secretary of State for Foreign Affairs of France formulated and implemented both above mentioned approaches. So in the war against Habsburg Empire, France supported the protestant coalition in order to gain world supremacy.

## **1.2. Background of US-China Trade Conflict :**

As a result of the US and China implementing new price lists on goods imported from the other nation's market, consumers in the affected countries may be required to pay higher import taxes

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<sup>31</sup> E. H. Carr, The twenty years crisis, 1919–1939: an introduction to the study of international relations (London: Macmillan, 1951).

<sup>32</sup> Polanyi, Karl, The great transformation: the political and economic origins of our times (Boston: Beacon, 1957).

in order to get their goods into the US. This is because both the US and China are revising their price lists for goods. This is because both the US and China are establishing new commodity pricing lists. This is because both the US and China are implementing new commodity pricing lists. This is occurring simultaneously in both nations. This is because both the US and China have just implemented new commodity price lists. Both countries are experiencing this concurrently. This is the situation since both the US and China has just revised their price lists. China and the US have just revised their respective price lists. At the peak of the dispute, which occurred at the end of 2019, the US imposed price lists on imports from China totaling more than US\$360 billion, and China responded by imposing import duties on US products totaling almost US\$110 billion.<sup>33</sup> Both of these actions were taken as a result of the ongoing trade dispute between the two nations. These limitations were implemented in reaction to the ongoing trade conflict between the two nations. Both of these actions were taken in direct response to the ongoing trade conflict between the two nations, which led to the adoption of both of these regulations.

### **1.2.1 The origin of US-China trade war:**

During his 2016 presidential campaign, Trump attributed the loss of manufacturing jobs and intellectual property to U.S. trade with China and the accords that made it possible. In 2016, he criticized the \$346 billion trade deficit between the US and China, dubbing China "the greatest thief in the history of the world."<sup>34</sup> He shouted, "We cannot continue to permit China to violate our nation." During his campaign, he promised to "reduce a better deal with China that allows American firms and people to compete." This was a component of a bigger effort to re-organize

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<sup>33</sup> Ka, Zeng "Trade Threats, Trade Wars: Bargaining, Retaliation, and American Coercive Diplomacy"

<sup>34</sup> *ibid*

the US-China relationship. With the goal of negotiating a better deal with China, Trump proposed a four-pronged strategy: label China a currency manipulator; confront China on intellectual property and forced generation switch concerns; prohibit China from using export subsidies and lax labor and environmental standards; and reduce the corporate tax rate to make American production more competitive.

In order to solve basic concerns with China's economic strategy, Trump aims to reach out to Beijing as soon as he assumes office. Three months into his presidency, they met at Mar-a-Lago and agreed to construct a 100-Day Action Plan to resolve trade issues. In exchange for greater Chinese access to bilateral trade and US support of China's Belt and Road Initiative, China agreed to (just) open its economy to American businesses and services the following month. However, further negotiations broke down as a result of Washington's demand for additional concessions from Beijing and Beijing's refusal to bend. The first 100 days of US-China CED concluded without an agreement, press conference, or joint statement in July 2017, which became declared useless by means of the Trump management four months later.

China's unfair trade practices, such as forced era switch, restricted market access, intellectual property theft, and state-sponsored subsidies, all contributed to President Trump's decision to launch the trade war and exert pressure on Beijing to make substantial changes to these aspects of the Chinese economic system. Trump argued that unilateral tariffs may cut the US' trade deficit with China and encourage the return of manufacturing employment to the US. China retaliated by imposing price curbs on more than \$185 billion in US imports between July 2018 and August 2019.

## 1.2.2 US' Economic Policy towards China

Trade war formally started with the signing of “Presidential Memorandum targeting China’s Economic Aggression” by US President Donald J. Trump on 23rd March 2018. US introduced tariffs on aluminum and steel imports from China. But, the economic tension between this “Group of Two” existed way before this date.

With the China’s accession to World Trade Organization in 2001 USA’s imports from China increased dramatically. Global supply chain then shifted from US to Chinese firms. With this change in global supply chain local industries in US suffered a lot, which caused unemployment in US. Free Trade’s negative effect on local industries and workers in US lead to rise in support of trade restrictions against China. In 2017, WTO granted China the status of market economy which US refused to accept, because this limited opportunities for US to use protectionist policies against Chinese companies. US made a radical decision to choose bilateral trade war over multilateral trade negotiations.

## 1.2.3 Brief History of Trade Wars:

There are number of examples of tariff spats among states in the economic history of the world.

- a) **Méline Tariff law 1892:** In 1871, in order to protect domestic industry from French competition Italian government raised tariffs by 60%. The French government threatened the Italian government that it would retaliate with punitive tariffs but the Italian government did not lower its tariffs against French industries, so to counter this economic aggression French government introduced protectionist measures called Méline Tariff law in 1892. This law was named after 65<sup>th</sup> French Prime Minister Jules Méline. The initiation of protectionist policies by mark the end of the period of free trade kindred with

Cobden–Chevalier Treaty of 1860. Then the both states felt the cost of this trade war. This trade war pushed Italy closer to Austria, Germany and Hungary due to the dislocations, which lead up to the First World War.

- b) **Opium Wars:** Antagonism between China and British Crown started when British government banned the export of substance to China. Situation got worse when Chinese Authorities confiscated Opium smuggled by British traders. Smuggling of opium to China increased opium addiction in Chinese citizens that was a serious blow to Chinese society and economy, Armed conflict started when drunken British soldiers killed Chinese citizens and British warships attacked and destroyed Chinese blockade of Pearl River estuary at Hong Kong. There were active military engagements between Britain and Qing dynasty following opium ban, which led china to loose Hong Kong to Britain. The British and French governments asserted on the principles of free trade which lead to the second Opium War (1856-1860) with Qing Dynasty of China because China refused to remove high tariffs on imports from British and French merchants. These two consecutive Trade Wars weekend the Qing Dynasty and directed China to modernization.
- c) **Fordney-McCumber Tariff Act:** Even after World War I US continued to take up protectionist measure and high tariffs in order to protect domestic infant industries from foreign competition. In order to protect local American farmers from foreign competition, US government passed the Fordney-McCumber Tariff Act in 1922 and raised the tariffs above the level fixed in 1913. Furthermore, this act gave president an authority to raise tariff rates up-to 50% to compensate the domestic and foreign production costs. This act made it difficult for European industries to make it to the American market.

**d) Smoot-Hawley Act 1914:** to safeguard American farmers US enacted the Smoot-Hawley Act in 1914. USA raised tariffs by 20% on about 890 items with which begun the trade war. This act of economic protectionism was criticized internationally and reciprocated by Canada and European states immediately. Up until to the mid 1931 only few states increased tariffs to reciprocate American actions. The serious wave of protectionism begun after the collapse of biggest Austrian bank, which fuelled the economic crisis in global trading system, followed by strict foreign exchange transactions by Germany, protectionist policies by Chile and Hungary. The bank of England added fuel to fire when it abandoned the gold standard in September 1931 and by freezing the credits it gave to German merchants. The depreciation of pound and sharp increase in the rate of interest gave the serious blow to global economy. Finally in 1934 the Smoot-Harley tariffs were revoked.

**e) Currency War of 1931:** To minimize the impact of competitive environment of the international trade or to counter protectionist policies of other countries, states retaliate either by imposing trade restrictions or by leaving gold standard to manage their balance of payments. To stop gold outflow Sweden, Norway, Finland and Denmark depreciated their currencies and cut off their financial and trade ties with Britain. Greece, Bolivia, Columbia, Argentina, Austria, Belgium, Iceland, Uruguay and Czechoslovakia in October 1931 adopted exchange control policies to stop their gold outflow. In December 1931 Asia's biggest economy Japan left the gold standard. Meanwhile countries on the gold standard took offensive measures against the states that left the gold standard. France put 15% additional tariffs, however South Africa and Canada resorted to anti-dumping measures targeting British imports. Germany imposed tariffs on the states that

depreciated their currency and abandoned gold standard, while Netherland increased import duties by 25% on the imports from currency depreciating states.

- f) **Chickens War 1960:** In 1960s, Germany and France imposed high tariffs on chickens imported from America to protect the European poultry industry. In response to these chicken tariffs US retaliated by imposing high tariffs on few commodities imported from France and Germany. USA even threatened to cut NATO forces but France and Germany did not bow to American pressure even when their domestic consumers were also suffering.
- g) **Pasta War:** In 1985, owing to discrimination of European states against American citrus products US put high tariffs on pasta imported from Europe. European countries retaliated with high tariffs on American walnut and lemons. Both parties by signing agreement in 1985 ended the dispute.
- h) **Banana War:** In 1993 European states imposed high tariff rates on the imports of banana from Latin America Caribbean and African states. US filed complaint against offenders in WTO, as most of the banana farms in Latin America were owned by US companies. In 2009, WTO forced European countries to slowly reduce their tariffs on Latin American banana imports and the agreement was signed formally by involved parties in 2012.

The consequences of these trade disputes or wars were far reaching impact on global economy.

- a) Smoot-Hawley worsened the condition of farmers and workers during the Economic depression.

- b) Due to the higher trade barriers and other protectionist policies of the states, world trade and commerce declined by 25% during 1929-1932.<sup>35</sup>
- c) Till 1932 US trade with European countries decreased by 66% because of the Smoot-Harley Act. From 1929 to 1932 US exports to Europe declined from USD 2,341 million to USD 784 million, while its imports decreased from USD 1,334 million to USD 390 million.<sup>36</sup>
- d) These tariffs and protectionist policies adopted by states worsened and prolonged the Great Depression.

World War II destroyed major European economies as well as American and Japanese economies. In that turmoil all states saw free trade and liberalization as their only opportunity to survive and then thrive instead as a threat. USA became biggest advocate of free trade and liberalization. World saw free trade as an opportunity for global peace and prosperity. In post Bretton Wood world USA emerged as the strongest power both economically and militarily.

The world and United States learned their lesson from the past and laid foundation of the rule based political and economic system. In 1948, the foundations of General Agreement on Tariffs and Trade were laid on the pattern of policies of free trade and liberalization adopted by US. After 1970, China began to rise as a major export power. After the post war period world incomes increased and poverty level dropped significantly.

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<sup>35</sup> Eichengreen, Barry, and Douglas A. Irwin. "The Slide to Protectionism in the Great Depression: Who Succumbed and Why?" *The Journal of Economic History* 70, no. 4 (2010): 871–97. <https://doi.org/https://www.jstor.org/stable/40984781>.

<sup>36</sup> Krist, Bill. "Did the Smoot-Hawley Tariff Cause the Great Depression?" *Washington International Trade Association*, June 16, 2014. <https://www.wita.org/blogs/did-the-smoot-hawley-tariff-cause-the-great-depression/>.

Nonetheless, liberalization and free trade are the drivers of globalization and economic prosperity yet many states still adopt protectionist measures to protect their local industries against foreign competition. During 1960s South Korean economy was blooming amid high tariffs. While in 1980s Japan took protectionist measures to protect its local industry. Taiwan also adopted protectionist trade policies to counter the competition posed by foreign industries.

Then there are so many examples of poor states wasting their resources and facing corruption because of their protectionist domestic trade policies.

## Chapter 2: Historical Overview of US-China Trade Relations

### 2.1. US-China Formal Trade Relations

Technically Moscow and Beijing would have been the natural allies during cold war. As, both Soviet Union and China were communist states and were committed to Marxist Socialism. Despite of all these similarities their relationship was complex. Moscow and Beijing started to drift apart and both went into war over a contested border of Xinjiang province. Skirmishes between militaries of both states were reported in 1964. Strain between Sino-Soviet relations brought US and China closer. There were already signs both states want rapprochement. US needed Communist ally in the region. On the other hand China also needed a stronger ally as Sino-Soviet relations were not as good as they should have. United States and China both recognized the efforts of then Pakistani President Mr. Yahya Khan. Dr. Henry Kissinger's visit to Beijing through PIA paved the path for future cordial relations between US and China.

In 1971, President Richard Nixon made his intentions public that he wants to have trade negotiations and dialogue with China and bring it back to international community. He told congress that the animosity between US and Beijing was an unresolved problem. In August 1971, Nixon administration devalued US dollar by 8% to control inflation, as a result every other country started to float it's currency against dollar. This Dollar crisis apparently did not affect the Chinese economy. Reston's report shows Beijing's complete insulation from the economic crisis outside China in 1971. On the other hand thirty six years later with huge 9% drop in Shanghai stock market Wall Street tumbled.

Not only has there been an astounding growth in the volume of economic exchange that has taken place between the US and China over the course of the previous four decades, but there has

also been an extraordinary increase in the value of economic exchange that has taken place between the two countries. In other words, not only has there been an astounding growth in the volume of economic exchange that has taken place between the US and China, but there has also been an astounding increase in the value of economic In other words, not only has there been an astonishing increase in the volume of economic exchange that has taken place between the US and China, but there has also been an astonishing increase in the value of economic transaction that has taken place<sup>37</sup>. To put it another way, the value of the commercial commerce that has taken place between the two nations has expanded at an astonishing rate. This expansion may be linked to the fact that the value of the exchange has increased over time, as that has been a contributing factor. As a consequence of this fact, these two nations have developed into some of the most major and vital economic partners in the context of the economy of the entire world as a whole. The actions that took place in the past have directly led to this result, which is an immediate consequence of those occurrences. Since the US and China have worked out their differences, the US is currently in a more advantageous position than China with regard to the economic linkages that link the two countries. This is the case because the US and China have resolved their differences. To put it another way, China is currently in a position where it is unable to compete favorably with other countries. China emerged as the most important component that significantly mitigated the potentially disastrous impact that the recession may have had on the economies of the US and other countries<sup>38</sup>. This was the case because China acted as a catalyst for global economic growth. The reason for this was due to the fact that China was successful in greatly reducing the effects of the recession. This was due to the fact that China acted as a link between the global economic crisis and the economic situation in China.

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<sup>37</sup> *ibid*

<sup>38</sup> B.A. Iqbal, N. Rahman, J. Elimimian, *The future of global trade in the presence of the Sino-US trade war*. *Economic and Political Studies*, 7(2), 217-231 (2019)

This was due to the fact that China was the primary factor that played a significant role in reducing the damage, and the reason for this was the fact that China was the primary factor. The fact that China made such a significant contribution to the economic revitalization of China is directly accountable for the position that we find ourselves in today, which is a position that we found ourselves in as a direct result of the contribution that China made. China has made great headway in the direction of diversifying its economy over the course of the last four decades, and the nation is no longer totally dependent on the strength of its relations to the US.

## **2.2. Phase I: 1971 -1990**

### **2.2.1. 1971-80**

During this decade there was a rapid change in the economic relations between US and China. China's trade with US and the world increased 20% every year during 1971 and 1972. US state department removed travel restrictions on citizens visiting China in March 1971. US table tennis players visited China in April 1971 known as "ping-pong diplomacy". In June, US lifted embargo on Chinese imports.

Even after Nixon's visit of China in 1972 the bilateral diplomatic and trade relations were not normalized. The years between 1972 & 1978 were the "quiet" years in the diplomatic relations between US and China. During this period China was in weaker position because of détente, domestic political issues, death of Chinese leaders and Watergate scandal. With Soviet invasion of Afghanistan in 1977 and presence of Soviet troops in Cuba, détente ended and China appeared as a feasible ally for US in the region. Diplomatic relations between US and People Republic of China (PRC) established and cemented in 1979. The governments of both states removed all legislative hurdles and strengthen the diplomatic relations. Economic relations were normalized and strengthen through bilateral trade agreements. US provided assistance to China in different sectors such as consumer goods manufacturing, transportation, hydro-electric power etc. China signed deals to buy arms from US.

On 24th January, 1980 US gave China the status of Most Favored Nation (MFN). This exempted Chinese imports from high tariff rates imposed by US during Great Depression. The US economic relations were normalized by putting China in the purview of Jackson-Vanik Amendment. This amendment linked trade benefits of the communist states such human rights

policies of the state. Until 2001 MFN status of China reviewed and renewed by US Congress on the legal grounds provided by Jackson-Vanik Amendment. In 2001, China became member of WTO, whose rules outlaw the imposition of high tariffs and trade restrictions on other member states.

The trade between America and China during this period was not significant. Their trade amounted to 1% of America's overall trade volume. During this period America exported more to China than it imported. The total trade between both states doubled every year. In 1978 it was 1.1 billion USD, 2.3 billion USD in 1979 and 4.8 billion USD in 1980. From 1970s China's imports of iron steel and other raw material substantially increased because China commenced modernization in four sectors - military industry, agriculture, science and technology. China spends 22% of its foreign exchange to import this raw material, which was reflected in America's exports.<sup>39</sup>

### **2.2.2. From 1981-90**

During 1980s US became China's third largest trade partner following Japan and Hong Kong. Political and economic reforms during this period paved the way for strong bilateral trade relations. Even though trade volume with China was not so significant part of America's total trade but efforts were made from both sides to strengthen these relationships. The goods traded between both states during 1980s were complementary. US and China recognized each other as friends rather rivals, because both states share common interests in the region and globally. Both saw their partnership crucial for stability and prosperous East Asia.<sup>40</sup>

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<sup>39</sup> K. Liu, Chinese manufacturing in the shadow of the China–US trade war. *Economic Affairs*, 38(3), 307-324 (2018)

<sup>40</sup> *ibid*

China's economic reforms brought China prosperity and stability. Agricultural and land ownership reforms during 1980s led to rapid increase in grain output, that enabled China to feed 22% of world's population. Gradually China loosened control over state owned firms and businesses which increased competition among businesses. This competition increased quality and eventually profitability, as a result Chinese industry grew at a commendable pace.

In 1980s Chinese imports from US diversified, apart from steel and iron China started importing advanced technology, industrial and agricultural raw material, chemicals etc. from America. On the other hand textile goods were the major portion of China's exports to US. By 1985 US became 3rd largest investor in China after Macau and Hong Kong. American multinational companies entered Chinese market during 1980s by making joint ventures with Chinese local companies.

### **2.2.3 Problem of Re-Export of Traded Goods**

The bilateral trade between US and Beijing was increasing at commendable pace. Both states had different accounting approaches with which they calculate the trade statistics. US officials estimated bilateral trade balance at 3 billion, while China claimed trade deficit of 1.5 billion. US accused China of concocting these figures to get concessions in trade negotiations. Different statistical approaches escalated friction. After the establishment of diplomatic relations between Washington and Beijing in 1979, their commercial relations expanded at exponential rate. During 1980s, annual average trade growth was 44%.

The most disagreements were on the accounting approaches of both sides to re-export to and from China via Hong Kong - Imports and exports channeled through Hong Kong. US became the latest investor in Hong Kong during 1980s. Meanwhile US also became the biggest market for

Hong Kong, with exports worth 7.8 billion. US also were the second largest re-export market with 1.5 billion USD worth trade. China became the second largest exporter to Hong Kong. The significant amount of imports and exports between China and US channeled through Hong Kong. US exported goods worth 375.9 million USD to China through Hong Kong, while, China exported goods with 1,125 million USD. China claimed that 60% of its exports to America channels through Hong Kong and 20% via some other country. Beijing argued that appreciation in the value of re-exporting goods should not be calculated as direct exports of China to America. China did not keep record of the final destination of re-exporting goods, which compromised the official figures of trade volume between Washington and China.<sup>41</sup>

#### **2.2.4 US-China Economic Relations between “1970-1990” in Perspective**

Initially US China primarily based on geopolitical interests during cold war because of their contention with Soviet Union. But in the latter half of 1980s bilateral trade volume was so significant that it was not possible for both US and Beijing to discount it. By 1989, US' total direct investment in China was 284 million USD. During 1980s US Congress was actively involved in policy making process especially US policy towards China. Up until China's accession to WTO in 2001, renewal of China's MFN status every year was a major hurdle and irritant for bilateral relations. US Congress used to raise questions about human rights situation in China. So before 2001, economic relations were affected by domestic politics, ideological differences and foreign policy challenges.

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<sup>41</sup> Wang, Dong. “China’s Trade Relations with the United States in Perspective.” *Journal of Current Chinese Affairs* 39, no. 3 (September 2010): 165–210. <https://doi.org/10.1177/186810261003900307>.

According to former China bureau chief for Wall Street Journal, James McGregor, and the purpose of making trade ties with China was not just to make friends but also to educate Chinese officials. Any kind of political tensions might affect business.

Another problem experienced by both states was the outcome of fast communication between two ideologically very different societies. US failed to anticipate the flow of investment in China from US during 1980s. In 1983, US concerns over the economic policies by Chinese government published in US Business journal. Some of the reasons highlighted in journal were:

- China's market is undefined
- The Chinese economy is centrally planned where sales are made in contracts rather than on basis of autonomous decisions made by purchasing party
- Because of the traveling cost and other expenses investment support can be costly for American investors.
- Calculating risks, profits and productivity can be difficult for US because of the unknown future of relationship between both states and unknown future of production cost

China also had similar concerns. According to Chinese authorities main problems were the inadequate knowledge and understanding of other country's laws, market policies, and management and accounting systems.

Sometimes fast commercial growth can cause serious backlash. In 1980s Chinese textiles exports to US increased rapidly, which triggered and provoke American textile industry resulted in protectionism in US. From 1974 to 2004 global textile and apparel trade was governed by the

Agreement on Textile and Clothing (ATC)<sup>42</sup>. It allowed developed states could legally create barriers in textile imports from developing states to protect domestic textile industry. Almost 85% of the Chinese textile exports to US were put under quota system from first agreement on textiles in 1980 to 1987s third accord.<sup>43</sup>

Due to trade deficit with China in 1980s, domestic demands in US for protectionist policies and more transparent trade rules must be adopted by China. America's debt international debt from 26 billion USD in late 1970s went to 126 billion USD by 1988.<sup>44</sup>

Due to economic reforms China emerged as an advanced consumer market by 1992 and elevated millions out of poverty. With the embarrassment of second phase reforms US firms started to see China as a potential market rather than just a low labor costing processing center.

Despite all the problems faced by US and China, both were crucial for each other's economically and politically. Taiwan became America's sixth largest trading partner by 1992 with the population of 22 million. Bilateral relations improved and stabilized since 1972 with the "grand bargain" accomplished by Richard Nixon, Mao Zedong, Jimmy Carter and Den Xiaoping.

Ultimately the "decade long strategic alliance" came to an end as a result of 1989 Tiananmen Square events, where government used violent force against students' protests and along with the end of Cold War.

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<sup>42</sup> C. Freund, M. Ferrantino, M. Maliszewska, M. Ruta, Impacts on global trade and income of current trade disputes. *Macroeconomics, Trade Investment (MTI) Practice Notes*, 2, 11 (2018)

<sup>43</sup> Wang, Dong. "China's Trade Relations with the United States in Perspective." *Journal of Current Chinese Affairs* 39, no. 3 (September 2010): 165–210. <https://doi.org/10.1177/186810261003900307>.

<sup>44</sup> Toussaint, Eric. "The Debt Trap." *CADTM*, December 26, 2020. <https://www.cadtm.org/The-debt-trap>.

### 2.3. Phase II: 1990-2010

Following the Soviet Disintegration, US-China relations were marked by geo-strategic and geo-economic issues such as, China's accession to World Trade Organization (WTO), global economic depression and the 9/11 incident. With the Soviet disintegration and fall of Berlin wall in 1989, communist regime in the Eastern Europe collapsed. Amid such great geo-strategic changes and with the removal of their common threat of Soviet Union relations between US and China alienated. The uncertainty of the geo-political domain made bilateral economic relations uncertain. In 1993, with the foreign direct investment of 27 billion dollars China stood second after US with the foreign direct investment of 32 billion dollars.<sup>45</sup> By 1993, US were the third biggest investor in China. Despite all the efforts of the past and steadily improving economic relations, geo-strategic equation was defining their relations.

Their bilateral relations went through number of critical phases from H W. Bush's administration, through Clinton's time in office and then in 2009 from Barack Obama's presidency. In 1989, immediately after the Chinese Cultural Revolution China went through the brief period of political liberalization phase referred as "Beijing spring". It has had serious effect on the policy making process and mutual relations. It started with the students protest in Tiananmen and the use of violent force by the government against the protestors. That put China under a lot of criticism and media spotlight. This event exposed the watershed between the legislative body and executive because of their different approaches to human rights crisis in China. In June 1989, President G. W. Bush announced sanctions against Beijing and suspended bilateral trade agreements. Bush administration was convinced that rather than putting further sanctions on China, the value of their bilateral relationship and economic growth China would

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<sup>45</sup> ibid

ultimately opt for liberalization and political democratization. The US and China tried to continue and improve bilateral relations and communication, but it was very challenging because US Congress was focused in America's policy towards Beijing amid human rights crisis in China. At the time of annual renewal of China's MFN status congress proposed to put more sanctions on China and also to revoke China's MFN status. In 1989, the volume of US-China bilateral trade was just 18 Billion dollars and US' direct investment in China was half one percent of US direct investment internationally.

During the post-cold war era economic issues used generally as a political tool especially. The second most important development in this period was the decoupling during Clinton's era over China's human rights violations. US made it clear that if the human rights violations continue China would lose MFN status and tariff benefits. While China threatened that it would respond in kind.

With Deng Xiaoping's "Southern tour" of Shenzhen and other Special Economic Zones in 1992, China transitioned to market oriented economy. With this a period of economic reforms and momentum started that was led by Jiang Zemin and Zhu Rongji. During this period China restructured taxation, corporate and banking governance systems, in addition to that China's accession to WTO and its exposure to international markets. During this period following Tiananmen both states continued bonding through economic engagement while looking for new mechanism that would allow them to live with their political and ideological differences.

Secondly, in the post 9/11 geo-strategic scenario and China's access to WTO on 11 December 2001, both states continued their bilateral economic cooperation. China was one of the original signatories of the General Agreement on Tariffs and Trade (GATT) in 1948, which was

predecessor of WTO. China left GATT in 1949 when communist party came into power. In 1986, China applied to re-join GATT but it took fifteen heads to become member of GATT again.<sup>46</sup>

China implemented policies of trade liberalization and integration into international community. According to China's commitments to WTO China lowered tariff rates, as a result of that in 2006 tariffs imposed on imports were only 2%. By 2005, China became third largest trading nation after US and Germany. In 1978, China's trade volume was 20 billion USD and thus figure reached 1.4 trillion by 2005. In 2005 America's exports to China increased from 34% in three years after China's accession to WTO to 81%. While China's exports to America increased by 92%.<sup>47</sup>

Fourthly in the post 9/11 (during George W. Bush's presidency) neoconservatives continued to see China as a moral challenge and a military threat to US. In Quadrennial Defense Review Report prepared before 9/11 attacks and was released on 30th September 2001, Beijing was identified as a significant challenge to America's interests in the Asia Pacific region and also a potential military competitor in the region. After the events of 9/11 US government released National Security Strategy in 2002, in which US government made clear that, America seeks constructive bilateral relations with China and wants prosperous and peaceful China.<sup>48</sup>

Despite all major developments from disintegration of Soviet Union to post 9/11 events, the bilateral relations between US and China continued to grow. Fifth, in 2010, their bilateral trade relations were tested again by many issues such as America's weapons sale to Taiwan; President

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<sup>46</sup> V.V. Markov, China and the USA: From economic rivalry in Asia-Pacific to trade war. *The Herald of the Diplomatic Academy of the MFA of Russia. Russia and the World*, 4(18), 110-119 (2018)

<sup>47</sup> L. Chunding, H. Chuantian, L. Chuangwei, Economic Impacts of the Possible China-US Trade War. *Emerging Markets Finance and Trade*, 54(7), 1557-1577 (2018)

<sup>48</sup> I. Sinitsyn, P. Kuimov, The economic terrorism of the USA with regard to Europe, Russia and other countries. *Vlast*, (9), 236-241 (2018)

Barack Obama's meeting with Dalai Lama and Chinese currency CNY.

## **2.4. Trade Relations in Obama's Era:**

Obama stopped the habit of prior US presidents "beating" China before normal operations. Since Ronald Reagan's administration, this practice has continued. This policy has been followed since Reagan's presidency. During the global financial crisis, Obama administration officials travelled to China to create a mutually respectful collaboration focused on solving world challenges. This was done to work with China. This was done through bilateral agreements and multilateral groups like the Group of 20, which consists of wealthier nations that advise developing ones. Recent developments have expanded the G20's authority. President Obama's first trip to China in November 2012 lacked flair, but it did involve open communication and big accomplishments, albeit on a more gradual scale, such as new renewable energy-focused programs. Despite a lack of drama, the trip resulted in several new sustainable energy programs. The voyage wasn't spectacular or dramatic, but it led to a number of key milestones, including the launch of new green energy programs.<sup>49</sup>

Because Obama is the first president without prior experience, the previous administration's China policy has not been challenged. Motive: George W. Bush ceased perceiving China as a "strategic competitor" and maintained tight connections with Beijing. Beijing is China's capital. This tied with Bush's war obsession. President Obama has changed US-China relations by focusing on global issues. The U.S. is interested and excited about expanding its engagement with China in these areas. Together, through international organizations, handle similar difficulties in the same setting. Maintaining healthy connections with our Asian and global allies

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<sup>49</sup> Zhou, Cissy, and Finbarr Bermingham. "Why Didn't Barack Obama Start a Trade War with China?" South China Morning Post, November 17, 2020. <https://www.scmp.com/economy/china-economy/article/3110249/barack-obama-i-could-not-have-trade-war-china-due-global>.

is vital to global peace and security. During the 2008-2009 global economic crises, tens of thousands of enterprises in China's Pearl River Delta closed due to a fall in exports. The region's status as an arena "factory" left it vulnerable during this time. As the "factory for the arena," the region suffered disproportionately severe damage. Tens of thousands of workers simultaneously demanded their paychecks. Beijing announced a proposal to invest \$586 billion (\$4 trillion) on infrastructure and social programs in November 2008. Quick response: this idea. China's largest bank dropped interest rates by more than 1 percentage point, the country's largest reduction since the 1997 Asian financial crisis. This charge cut was China's lowest since the 1990s. The stimulus also boosted China's credit expansion.<sup>50</sup>

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<sup>50</sup> Indyk, Martin S., Kenneth G. Lieberthal, and Michael E. O'Hanlon. "Scoring Obama's Foreign Policy: A Progressive Pragmatist Tries to Bend History." *Foreign Affairs* 91, no. 3 (2012): 29–43. <https://www.jstor.org/stable/23217964>.

## **Chapter 3: The Escalating US-China Relations and Deepening Trade War:**

### **3.1. From Trade Conflict to Trade War**

The US and China are currently the two most important countries in terms of the global economy. The US and China are projected to conduct a trade worth almost 559 billion dollars in 2019, representing a significant rise compared to the amount transacted in 2018. This is primarily attributable to China's rapid expansion of its exports when it became a member of the WTO in the year 2001.

The imbalanced nature of this trade, with the US continuing to maintain a substantial and rising deficit in its trade with China, was a major electoral issue throughout the 2016 presidential campaign in the US. Even before the trade war began, the US had accumulated a trade deficit that was worth 375.6 billion dollars in 2017, up from 103.1 billion dollars in 2002<sup>51</sup>.

As a result of his concern with trade imbalances, President Donald Trump of the US placed punitive tax lists on China in 2018. These tax lists served to further strain the already strained bilateral ties that exist between the two countries. Compliance with the price lists was enforced by the use of restrictions on Chinese enterprises' access to high-tech American products and foreign investments that could threaten national security, in addition to claims of unfair commercial practices on the part of the Chinese government.

According to the data provided by the Office of the US Trade Representative, the deficit reached a high of \$378 billion in 2018<sup>52</sup>, before experiencing a modest reduction to \$345.6 billion in 2019 as a direct result of the initiation of the alternative dispute. The US imposed a 25% tariff on

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<sup>51</sup> Meltzer, J (2019), "Governing Digital Trade", World Trade Review 18(2).

<sup>52</sup> Janow, M and P Mavroidis (2019), "Digital Trade, E-Commerce, the WTO and Regional Frameworks", World Trade Review 18(2).

US\$34 billion worth of Chinese imports on July 6, 2018<sup>53</sup>, marking the beginning of the current trade war between the two countries. A number of tariffs will be implemented between 2018 and 2019, with this one being the first.

It continued to get worse, with the US and China enforcing different import price lists on each other's products until the middle of December 2019, when an agreement in principle on a phase one change deal was finally achieved. Until then, it remained the case that the US and China were enforcing different import price lists on each other. Up until that point, it was still the situation that the US and China were using different import pricing lists while doing business with one another. In spite of the fact that they were conducting commerce with one another, the US and China was nonetheless operating under the circumstance in which they used distinct import pricing lists. On January 15, 2020, the section one alternative arrangement was officially signed, and on February 15, 2020, the conditions of the agreement became legally compulsory<sup>54</sup>.

The US and China continued to escalate the situation by imposing heavy import tariffs on each other's goods until they reached an agreement in principle on a trade deal for sector one in the middle of December 2019. On January 15, 2020, the parties formally executed an agreement to amend Section 1, and on February 15, 2020, its terms went into effect.

Since the US and China have both updated their price lists on goods imported from the People's Republic of the other, consumers in the targeted country may have to pay higher import taxes when bringing items from the other country into the US. This is because both countries have updated their price lists on goods imported from the People's Republic of the other.

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<sup>53</sup> ibid

<sup>54</sup> Lardy, N (2014), *Markets Over Mao: The Rise of Private Business in China*, Peterson Institute for International Economics

At the end of 2019, the US had placed tariffs on imports from China totaling more than US\$360 billion, while China had responded by placing tariffs on imports from the US totaling over US\$110 billion<sup>55</sup>.

### **3.2. Tariff Hike and Trade War**

As a result of the US and China implementing new price lists on goods imported from the other nation's market, consumers in the affected countries may be required to pay higher import taxes in order to get their goods into the US. This is because both the US and China are revising their price lists for goods. This is because both the US and China are establishing new commodity pricing lists. This is because both the US and China are implementing new commodity pricing lists. This is occurring simultaneously in both nations. This is because both the US and China have just implemented new commodity price lists. Both countries are experiencing this concurrently. This is the situation since both the US and China has just revised their price lists. China and the US have just revised their respective price lists. At the peak of the dispute, which occurred at the end of 2019, the US imposed price lists on imports from China totaling more than US\$360 billion, and China responded by imposing import duties on US products totaling almost US\$110 billion<sup>56</sup>. Both of these actions were taken as a result of the ongoing trade dispute between the two nations. These limitations were implemented in reaction to the ongoing trade conflict between the two nations. Both of these actions were taken in direct response to the ongoing trade conflict between the two nations, which led to the adoption of both of these regulations.

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<sup>55</sup> Benguria, F. and F. Saffie (2019): "Dissecting the Impact of the 2018-2019 Trade War on US Exports," Available at SSRN 3505413.

<sup>56</sup> *ibid*

### 3.3. The origin of US-China trade war:

During his 2016 presidential campaign, Trump attributed the loss of manufacturing jobs and intellectual property to U.S. trade with China and the accords that made it possible. In 2016, he criticized the \$346 billion trade deficit between the US and China, dubbing China "the greatest thief in the history of the world."<sup>57</sup> He shouted, "We cannot continue to permit China to violate our nation." During his campaign, he promised to "reduce a better deal with China that allows American firms and people to compete." This was a component of a bigger effort to reorganize the US-China relationship<sup>58</sup>. With the goal of negotiating a better deal with China, Trump proposed a four-pronged strategy: label China a currency manipulator; confront China on intellectual property and forced generation switch concerns; prohibit China from using export subsidies and lax labor and environmental standards; and reduce the corporate tax rate to make American production more competitive.

In order to solve basic concerns with China's economic strategy, Trump aims to reach out to Beijing as soon as he assumes office. Three months into his presidency, they met at Mar-a-Lago and agreed to construct a 100-Day Action Plan to resolve trade issues. In exchange for greater Chinese access to bilateral trade and US support of China's Belt and Road Initiative, China agreed to (just) open its economy to American businesses and services the following month. However, further negotiations broke down as a result of Washington's demand for additional concessions from Beijing and Beijing's refusal to bend. The first 100 days of US-China CED

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<sup>57</sup> Bastiaan van Apeldoorn, Naná de Graaff and Henk Overbeek, 'Reconfiguration of the global state–capital nexus', *Globalizations* 9: 4, 2012, p. 475.

<sup>58</sup> Amiti, M. and J. Konings (2007): "Trade liberalization, intermediate inputs, and productivity: Evidence from Indonesia," *American Economic Review*, 97, 1611–1638.

concluded without an agreement, press conference, or joint statement in July 2017, which became declared useless by means of the Trump management 4 months later).

China's unfair trade practices, such as forced era switch, restricted market access, intellectual property theft, and state-sponsored subsidies, all contributed to President Trump's decision to launch the trade war and exert pressure on Beijing to make substantial changes to these aspects of the Chinese economic system. Trump argued that unilateral tariffs may cut the US' trade deficit with China and encourage the return of manufacturing employment to the US. China retaliated by imposing price curbs on more than \$185 billion in US imports between July 2018 and August 2019.<sup>59</sup>

### **3.4. US' Trade Liberalization towards China**

US adopted PNTR (Permanent Normal Trade Relations) trade policy towards China in October 2000. Before PNTR US had low trade tariffs against Chinese imports like its imports from any other state. Before PNTR US government had to take President's approval every year for low tariff rates against Chinese imports. This approval from US president could also be overruled by US congress. With PNTR there was no longer the need for prior approval from the president. PNTR removed all the uncertainties between US China trade relations<sup>60</sup>. After PNTR many US firms shifted their production from US to China. It devastated the US producers. In order to compete with Chinese producers, US producers had to replace manual labor with cutting edge technologies. This trade liberalization towards China incentivized Chinese firms. US faced decline in manufacturing employment as large as it experienced in four years following the onset of Great Depression. From 1979 to up until 2000 manufacturing employment in US fell 2.3

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<sup>59</sup> <https://www.brookings.edu/blog/order-from-chaos/2020/08/07/more-pain-than-gain-how-the-us-china-trade-war-hurt-america/>

<sup>60</sup> Schwartz, A. J. (2000) "Do We Need a New Bretton Woods?" *Cato Journal* 20 (1): 21–25.

million or 12%. And the fall in manufacturing employment from right after PNTR in 2000 to 2003 was 2.9 million or 17%<sup>61</sup>.

With the China's accession to World Trade Organization in 2001 USA's imports from China increased dramatically. Global supply chain then shifted from US to Chinese firms. With this change in global supply chain local industries in US suffered a lot, which caused unemployment in US. Free Trade's negative effect on local industries and workers in US lead to rise in support of trade restrictions against China.

US's took the radical decision of choosing Bilateral Trade war over multilateral trade negotiations. WTO had been a platform for states to resolve their trade disputes amicably for over two decades. But when US formally started a bilateral trade war with China in 2018, it poked holes in the weak spots of WTO's dispute resolving mechanism.

### **3.5. US' Trade Deficit and the Trade War**

In 2015, US and China were the two dominating players in global economy. US had absolute nominal GDP of USD 20,412 million (23.3% of the global share), followed by China with USD 14,092 million (16.1%) of the global share. China became the world's largest exporter with export volume of USD 2263.33 million annually, while US stood second with export volume of USD 1546.72 million<sup>62</sup>. In China absolute GDP by purchasing power party is higher in comparison to US. The middle class in China is growing steadily, in 2002 population belonged to middle class was 80 million and in 2018 middle class population reached 700 million, which

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<sup>61</sup> Wu, M (2016), "The 'China, Inc.' Challenge to Global Trade Governance", Harvard International Law Journal 57(2): 261-324.

<sup>62</sup> *ibid*

is about the half of total population. China became the leading exporter with export volume of 2,263.34 million USD and US stood second with exports worth of 1,546.73 million USD<sup>63</sup>.

There was a huge gap between the export volumes of both powers. Chinese social scientists gaged that Chinese economic power surpasses US' in 2014. US remained most dominant power in global economy because it still holds leading position in commodity markets, credits, energy and stock. No doubt China has become a dominant actor but there still isn't balance in the scale of both economies.

China is becoming global export oriented tech hub and has been the global low-cost manufacturing center. Although it has been observed through econometric models that China's impact increased globally, but America remained the most dominant power in global economy as it holds the leading position in all stock, credit, and energy and commodity markets globally<sup>64</sup>. Hence, in scientific literature there is still no consensus on unified understanding of the balance in the scale of two economies. US has absolute dominance in global economy for past couple of decades, with China's growing economic influence and imbalance in bilateral trade, increased competitiveness in high-tech industry and increase in China's global exports, conflict aroused.

US state officials accused China of pursuing unfair trade policies, exploiting the benefits of US trade liberalization towards China and WTO membership, at the same time China kept its domestic market safeguarded against foreign competition by providing subsidies and facilitating its exports through currency devaluation<sup>65</sup>. US accuse China of stealing technology and scientific

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<sup>63</sup> Lardy, N (2019), *The State Strikes Back: The End of Economic Reform in China?* Peterson Institute for International Economics.

<sup>64</sup> Randall Schweller and Xiaoyu Pu, 'After unipolarity: China's visions of international order in an era of US decline', *International Security* 36: 1, 2011, pp. 41–72.

<sup>65</sup> Jeffrey A. Winters and Benjamin I. Page, 'Oligarchy in the United States?', *Perspectives on Politics* 7: 4, 2009, pp. 731–51.

and technical knowledge from American firms, violating intellectual property rights and neglecting environmental protection requirements. Meanwhile, researchers pointed out Trump administration's direct violation of multilateral agreements and international law for pursuing and advocating "make America great again" policy exceedingly guided by national interests. Experts referred America's protectionist trade policy as the policy of national egoism<sup>66</sup> within framework of economic patriotism and even economic terrorism. By adopting protectionist policy a state neglect the interest of its trade partners in economic and political organizations and informal unions. It is evident that US abandons the idea of free trade to preserve the status of global leader which can ensue the spread of de-globalization, creation of regional mega-unions because no country can bear American protectionism without economic allies.<sup>67</sup>

Global economic history proves that trade wars have no winners. In trade war both sides suffer, but US have a long history of winning negotiations, iron out trade ambiguities and compelling other states to back off. China has also exhibit it's inclination towards compromise, to reduce the disparity in bilateral trade to 200 billion USD and liberalize its domestic market for American firms. However, US imposed sanctions, which have strong implications for China's industrial policy and "Made in China 2025" plan. By adopting this policy China is aiming to secure leadership in at least 10 high tech industries. There is no consensus of the experts on whether it is possible to win this war and who would be the winner of this war. No trade war has winner, but every trade war has tree losers: both trade partners and the overall global trade drop caused by

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<sup>66</sup> V.V. Markov, China and the USA: From economic rivalry in Asia-Pacific to trade war. The Herald of the Diplomatic Academy of the MFA of Russia. Russia and the World, 4(18), 110-119 (2018)

<sup>67</sup> . ibid

this conflict. International activities of Washington and Beijing as well as their hostility have drastic implications for global GDP growth rates<sup>68</sup>.

March 23, 2018 is believed to be the formal date when trade was begun with the President Donald J. Trump's announcement of "Presidential Memorandum Targeting China's Economic Aggression" and with the imposition of tariffs on steel and aluminum, but the economic tension between this "Group of Two" existed way before this date<sup>69</sup>.

In 2017, WTO granted China the status of market economy, which prompted disapproval from US, because this new status would limit possibilities for protectionism against Chinese companies. US refused to recognize China as a market economy<sup>70</sup>; this was the first step towards the hostility between Washington and Beijing. National Security strategy adopted in December 2017 reflected President Trump's antagonistic policy towards China. This strategy posed restrictions on Chinese investment in American technology; it tightened export controls and diversified the list of dual-use products that could not be exported to China. In June 2020, US department of commerce established an Entity List, according to which 33 Chinese companies were banned to do business with American companies. In response China adopted tit for tat policy and issued list of blacklisted American companies<sup>71</sup>.

Regardless of reaching to an accord at G20 summit, both parties very shortly started exchanging threats to increase tariffs. In 2019, Chinese companies were reported to stop importing

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<sup>68</sup> Christopher McNally, 'Sino-capitalism: China's re-emergence and the international political economy', *World Politics* 64: 4, 2012, pp. 741–66.

<sup>69</sup> Randall Schweller and Xiaoyu Pu, 'After unipolarity: China's visions of international order in an era of US decline', *International Security* 36: 1, 2011, pp. 41–72.

<sup>70</sup> *ibid*

<sup>71</sup> Ho-fung Hung, *The China boom: why China will not rule the world* (New York: Columbia University Press, 2015); Doug Stokes, 'Achilles' deal: dollar decline and US grand strategy after the crisis', *Review of International Political Economy* 21: 5, 2014, pp. 1071–94; Daniel Drezner, 'Bad debts: assessing China's financial influence in Great Power politics', *International Security* 34: 2, 2009, pp. 7–45.

agricultural products from US. US accused China of currency manipulations aimed to seek competitive advantage and partly neutralize the effects of tariffs. As a result of American accusations, China initiated third case against US in WTO<sup>72</sup>, questioning the reasons behind the imposition of tariffs. In December 2018, US neglected the results of G20 submit and introduced new list of tariffs worth 125 billion USD on imports from China<sup>73</sup>. In response to these new tariffs, China imposed 5% tariff on US crude oil and other goods worth 75 billion USD.<sup>74</sup> Later US and China excluded some goods off their tariff lists as their confrontation was causing huge losses worldwide and at home. US unilateral sanctions against ZTE and Huawei have significantly reduced their competitiveness and decreased the development of Chinese hi-tech industries. On the other hand China is not likely to make significant concessions and abandon the development of digital economy. On the contrary, China is likely to pursue the development of its own technologies, as well as impose tariffs and boycott American goods and services.

In July 2018, China stopped importing soya bean from US but then resumed buying again same year. Agricultural exports of US were the center of negotiations. As a result, China excluded soybeans and other farm products from the list of additional tariff goods in September 2019. The US wants to increase the number of jobs by bringing back its capital to home and start re-industrialization in America and at the same time country seeks to reduce the costs of serving as a world leader. By developing Belt and Road Initiative (BRI) China also reduced the influence of US in the Annual Percentage Rate (APR). The protectionism adopted by US was not just only to counter China but can also be identify as an effort of Washington to serve its internal interests.

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<sup>72</sup> Cf. Stephen Brooks and William Wohlforth, 'The rise and fall of the Great Powers in the twenty-first century: China's rise and the fate of America's global position', *International Security* 40: 3, 2016, pp. 7–53.

<sup>73</sup> *ibid*

<sup>74</sup> D. Dongsheng, G. Luft, D. Zhong, Why did Trump launch a trade war? A political economy explanation from the perspective of financial constraints. *Economic and Political Studies*, 7(2), 203-216 (2019)

Supporting domestic producers by limiting foreign competition can not only reduce overall consumption but that will also increase the production volume of goods to which tariffs apply mainly aluminum and steel products. In addition to support domestic producers, the consistently pliant balance of US current account can also be another internal factor behind the Washington's protectionism. Mutual trade with China is a significant factor behind the increasing current account deficit of US.<sup>75</sup>

Washington acknowledges several problems in the bilateral trade with China and deficit in trade balance is the most important one. In 2017, US total deficit was worth 796 billion USD, out of which China alone was accounted for 376 billion USD or 47%, almost a half<sup>76</sup>. This trade war was supposed to reduce bilateral trade deficit and bring jobs back home for American citizens. The issue of trade deficit is emerging for decades and is still increasing. Out of total Chinese exports, 19% goes to US, while, only 8.3% of US total exports go to China. In 2018, US total exports to China dropped by 21% because of the ongoing trade conflict between both stages, while, trade flow from China to US only dropped by 12%.<sup>77</sup>

### **3.6. Growing US China Tensions and Dwindling Globalization:**

The China fueled globalization is replacing the globalization led by US and other developed economies. The BRICS (an acronym for Brazil, Russia, India, China, and South Africa), The Asian Development Bank and New Development Bank (NDV) are more appealing to developing nations, with US being focused on America First policy. Unlike US major trading partners and

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<sup>75</sup> S.I. Dolgov, Y.A. Savinov, International trade: USA on the warpath. Russian Foreign Economic Bulletin, (9), 7- 20 (2018)

<sup>76</sup> ibid

<sup>77</sup> Setser, Brad. "China's Surplus Is Rising Rapidly. So Is the U.S. Deficit. The IMF Cannot Turn a Blind Eye." Council on Foreign Relations, October 20, 2020. <https://www.cfr.org/blog/chinas-surplus-rising-rapidly-so-us-deficit-imf-cannot-turn-blind-eye>.

G7 states both Obama and Trump administrations showed no interest in China's Belt and Road Initiative (BRI) despite its openness. Instead President Trump called the initiative insulting.

The relevance of transportation networks, and by extension, shipping infrastructure, for the growth and development of China's economy is well understood by the Chinese government. The initiative known as "One Belt One Road," which has as its two key pillars the Silk Road Economic Belt and the 21st Century Maritime Silk Road, serves as the primary foundation for the country's development efforts<sup>78</sup>. The scope of this improvement project encompasses seventy-five percent of the world's known energy supplies, seventy percent of the world's population, and fifty-five percent of the world's gross domestic product. "The investments will comprise roughly 300 projects extending from Singapore to Turkmenistan," an analysis published by Reuters states.

One Belt One Road (often abbreviated as OBOR) includes the Regional Comprehensive Economic Partnership as an essential component of the initiative (RCEP). The countries of Australia, New Zealand, China, India, Japan, and South Korea will be joining an alliance led by China, together with the Association of Southeast Asian Nations (ASEAN)<sup>79</sup>. In 2014, ASEAN was ranked number seven in the globe in terms of its economic might. Additionally, with a total GDP of US\$2.6 trillion, it was the 0.33 largest economy in Asia, which meant that it was larger than India's economy in its entirety.

China is pouring billions of dollars into infrastructure projects across Africa as part of its "One Belt One Road" initiative. Building the Standard Gauge Railway in Kenya will take a lot of

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<sup>78</sup> Gerstl, A., & Wallenböck, U. (2020). *China's Belt and Road Initiative (Rethinking Asia and International Relations)* (1st ed.). Routledge.

<sup>79</sup> Moldashev, K. (2019). Risks in the Implementation of the Belt and Road Initiative in Central Asia. doi: 10.13140/RG.2.2.19643.26401

work. Deepwater ports are also being constructed in cities like Dakar, Dar es Salaam, and Djibouti. Like the Chinese Deepwater port in Cameroon, Kribi, these have the potential to develop into major economic centers.<sup>80</sup>

The first leg of the train ride between Europe and Asia takes place on the Russian Trans-Siberian Railway. Anthony Cuthbertson proposed a Hyperloop Silk Road in an issue of Newsweek. It's possible that this will pave the way for the proposed 64,000 kilometers of rail tracks, the purpose of which is to reinforce existing east-west tunnels. According to a Bloomberg article from earlier this year, Hyperloop One, the company behind the concept, was in talks with CRRC Corp., China's largest railway system manufacturer, about a possible investment.

Investments in infrastructure and high-tech manufacturing, both domestically and internationally, are among the goals of a new \$11 billion fund that China has announced for Central and Eastern Europe. DB Schenker, a German-Chinese logistics company, started operating weekly block trains between the two countries in 2011. The first container of Chinese school supplies arrived at the Rail Service Centre freight port in Rotterdam four years later.<sup>81</sup>

To meet urgent financial needs in the Belt and Road region and beyond, China established the New Development Bank (NDB), the Silk Road Fund (SRF), and the Asia Infrastructure Investment Bank (AIIB). This reminds me of the Marshall Plan that the US implemented after WWII to help Western Europe get back on its feet. If the US leaves the TPP, as President Trump has suggested, China will benefit. The legally binding agreement was seen by many as a way to counter China's expansionist ambitions and strengthen ties between the US and countries in the

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<sup>80</sup> Taliga, H. (2021). Belt and Road Initiative in Central Asia (pp. 6-).

<sup>81</sup> Baqaee, D. and E. Farhi (2021): "Networks, barriers, and trade," Tech. rep., National Bureau of Economic Research.

Pacific region. While countries like Malaysia and Vietnam, which rely heavily on exports, stand to benefit greatly from TPP, others, like the Philippines, which have yet to sign the pact, run the risk of being left out. It's possible that currency conversions and resource redirects will slow down the site and military efforts abroad. For example, many Africans are perplexed as to why things are looking up. If, for example, the US stops backing international efforts to adapt to climate change, China may try to reassume moral leadership. It has already persuaded Trump not to completely abandon the Paris climate agreement.<sup>82</sup>

Where do you see American and Chinese families going from here? US tariffs on Chinese imports will likely serve as a jumping off point for discussions, which could get contentious. If they can maintain peace, not only will they avoid a repeat of the global trade war that broke out in the 1930s after the Smoot-Hawley tariff act was enacted and nationalism swept the globe, but they will also be able to elevate their bilateral ties to new heights. In the event that the US decides to withdraw from globalization, China is ready to fill the void.<sup>83</sup>

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<sup>82</sup> Klieger, Michelle; *The Demise of Free Trade: The U.S.-China Trade War Explained*”

<sup>83</sup> *ibid*

## Chapter 4: Implications of US-China Trade War on Liberal World Order

### 4.1. Defining Liberal World Order:

An order is the bunch of international institutions, which are designed to help member states govern their interactions. States devise and follow the rules they make because they believe obeying those rules is in their own favor. The rules define the acceptable and unacceptable kind of behavior of the states. The great powers make those rules to suit their interests. However, those rules usually benefit weaker states, but when those rules do not accord with the interests of great power they either ignore them or make new rules.<sup>84</sup>

An order is comprised of a number of organizations, some of which are associated with the armed services and others of which are associated with the financial sector. One way to think of an order is as a conglomeration of separate organizations that are collaborating to achieve a common goal. Examples of financial institutions include the North American Free Trade Agreement, the World Bank, and the International Monetary Fund. The European Central Bank and the Bank of Japan are two such banks that serve as examples. To name just a few examples, some well-known military organizations are the North Atlantic Treaty Organization (NATO), the Warsaw Pact, and the Southeast Asian Treaty Organization (SEATO).<sup>85</sup> Institutions that deal with environmental issues, such as the Paris Climate Agreement, as well as institutions that are more complex and diverse, such as the United Nations, the League of Nationalities, and the European Union, can also be included in that sequence. Another possibility is to reverse the order of those two categories. Switching the order of those two groups is another option that's

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<sup>84</sup> Scheidel, Walter, *The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-First Century* (Princeton, NJ: Princeton University Press, 2017).

<sup>85</sup> Van Apeldoorn and de Graaff, *American grand strategy and corporate elite networks*, pp. 89–95.

open to consideration. Alternating the order in which these two groups appear is another possibility that might be taken into account. One other idea that ought to be taken into consideration is switching up the sequence in which these two groupings are presented. To be more exact, the sequence can be expressed as follows: the words "peace" and "stability" cannot be used as an interchangeable synonym for the word "order," and the word "order" cannot be used as an antonym for the word "disorder." To put it another way, it is not possible to use the word "order" as an antonym for the word "disorder"<sup>86</sup>. The liberal international order that we have now had its foundation set during the time of the cold war, which served to pave the way for its establishment in the present day by serving to pave the way for its establishment in the present day by serving to pave the way for its establishment in the present day by serving to pave the way for its establishment in the present day. Because of this, its establishment in the present day was facilitated, which was made feasible as a direct result of this. During the time of the cold war, the international power dynamic was characterized by a bipolar dynamic. This was in contrast to the global balance of power, which was characterized by a unipolar dynamic. This dynamic did not shift at any point up until the end of the conflict. During the whole duration of the cold war, there were two separate orders that coexisted alongside one another. These orders stood in direct opposition to one another and engaged in fierce competition with one another. The existence of the cold war was the primary element that served as a dictating force for the structure of this dynamic. The US and the Soviet Union both founded one of these orders, but they did so at different times and in different locations. The US established one of these orders. The US played a significant role in the formation of one of these organizations and was one of the organizations' initial members.

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<sup>86</sup> Stuenkel, Oliver, *Post-Western World: How Emerging Powers Are Remaking Global Order* (Malden, MA: Polity Press, 2016), chaps. 4-5.

The international order existed during cold war was not liberal because USSR and US were engaged in security competition. So the order during the cold war was realist even when most of the democracies were liberal at that time.<sup>87</sup> There was no need to create institutions to regulate economic relations between communist bloc and the west because there was not much economic interaction between both blocs. Meanwhile they also cooperate in the second half of the cold war on security matters. They created institutions to stop nuclear proliferation and also slow down the arms race between them. The order during cold war remained sparse regardless of the cooperation between both powers to strengthen the international order.

The “unipolar moment” arrived when Soviet Union collapsed and US emerged as the world’s only and greatest super power. The western or capitalist or liberal order that was devised by the United States to counter communist order backed by Soviet Union, remained intact while the communist order fell apart quickly after soviet disintegration.<sup>88</sup>

The Bush administration decided to spread this western order across the globe. In 1990, President George H. W Bush said “there is no substitute for American leadership”. President Clinton and his secretary of state called America “The indispensable nation”. President Bush called the international order as “the new world order” and the key institutions like United Nations were integrated in the new order.<sup>89</sup> The American leadership after the cold war was determined to replace the realist order that existed during cold war with the liberal one.

There were three main tasks were involved to replace the old order with liberal order and spread it around the planet. First task was to create the web of international institutions with universal

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<sup>87</sup> *ibid*

<sup>88</sup> . S.I. Dolgov, Y.A. Savinov, International trade: USA on the warpath. Russian Foreign Economic Bulletin, (9), 7- 20 (2018)

<sup>89</sup> V.V. Markov, China and the USA: From economic rivalry in Asia-Pacific to trade war. The Herald of the Diplomatic Academy of the MFA of Russia. Russia and the World, 4(18), 110-119 (2018)

membership. Second task was to make the order more open by integrating all countries into open economic order. Third task was to vigorously promote and spread liberal democracy all around the world.

#### **4.2. Implications:**

As a direct result of China's economic ascent, students in Western nations have engaged in an unprecedented quantity of educational discourse. Pessimists have depicted the "Rise of China" as a threat to the liberal global system established by the US. They offered an evaluation that was unbalanced and slanted towards one particular perspective. On the other hand, the "upward thrust of China" is portrayed as a benign energy surge that neither threatens nor disturbs the contemporary world order. This contradicts the original interpretation. In addition to these divergent viewpoints, liberal governments that are part of the liberal global order led by the US have been experiencing an internal crisis. This indicates that the historical route has not unfolded as promised by liberal prophets. The development of populism and nationalism among the nations that authored "give up of history" has discredited the manifesto's claim that "liberalism is the most rational governing ideology of the post-Cold War generation."

Concurrently, the infrastructure of the intrinsically unjust liberal international order led by the US has been experiencing greater competition from the emerging powers of the relaxation, most notably China. Experts believe that China does not need to revisionist agenda to surpass United States, but current international system is benefiting China. China's FDI abroad has increased exponentially and China is currently have bilateral trade relationship with other states and is active member of international organizations. Using the "One Belt, One Road Initiative" (BRI)<sup>90</sup> as a case study to examine the topic, this newsletter examines the impacts of China's growing

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<sup>90</sup> Ibid

push for the liberal international order led by the US. I argue that China anticipated that the Belt and Road Initiative (BRI) would result in the emergence of a new, more equitable international order, which would replace the "Western powers' colonial-era arrangement of exploitation."<sup>91</sup> The Belt and Road Initiative (BRI) is the only evidence that China is a regressive actor in the modern electronics industry and revisionist electricity.<sup>92</sup> On the other hand, BRI is a liberal challenge in and of itself. Therefore, BRI is not in conflict with liberalism. It is operating within the liberal order but anticipated a new international system. Thus, it may be claimed that BRI is a liberal challenge to the US-led unipolar global system that is geared towards a more inclusive and transformative global order.

The allies of the US and China will determine the fate of liberal internationalism, the dominant elite international perspective that has underpinned an America-centric liberal world order. Since the end of World War II, the US has led a global order based on economic and political liberalism, a commitment to worldwide open markets, and the development of "free market democracies."

#### **4.2.1. Free Market Principles:**

The most important strands of Liberalism are democracy, cooperation, democracy and free market. The concept of free market was coined by Adam Smith. The concept explains how free trade can benefit individuals and society. According to him government should not interfere in trade.<sup>93</sup> United States has been backing this system but China by using the same system in its favor has challenged United States position in this system. If we observe recent events US has

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<sup>91</sup> D. Dongsheng, G. Luft, D. Zhong, Why did Trump launch a trade war? A political economy explanation from the perspective of financial constraints. *Economic and Political Studies*, 7(2), 203-216 (2019)

<sup>92</sup> L. Chunding, H. Chuantian, L. Chuangwei, Economic Impacts of the Possible China– US Trade War. *Emerging Markets Finance and Trade*, 54(7), 1557-1577 (2018)

<sup>93</sup> Smith, Adam; "Wealth of Nations" p. 1-25

been more of a threat to Liberal World Order than China. China used this current system in its favor and became a major economic power. Seeing China rising to the level that it started threatening United States strategically and economically, there has been a major policy shift on United States part. Washington adopted neo-mercantilist measures to reverse the damage has been caused to American economy and its domestic industry.

The order is policies-based in the sense that it is largely cemented in liberal international institutions founded by and focused on US power, but it is also substantially maintained by a military with global reach. China and other growing nations are not faced by a Western or American-led order or system. They must navigate a more intricate interior environment. This global system is the culmination of centuries of innovation and effort. It is exceedingly complex, comprehensive, integrated, institutionalized, and firmly established in both the societies and economics of wealthy capitalist nations and developing nations. And this has been the situation for the previous half-century.<sup>94</sup>

Order has the unique ability to incorporate expanding capabilities while balancing cultural and political diversity. The current global order is the outcome of two order-generation procedures. The first is the development and expansion of the nation-state system since the Treaty of Versailles. In 1648, Westphalia was founded. Since then, the mission has created national sovereignty and norms standards and concepts.<sup>95</sup> Utilizing high-quality energy, the US is carrying out the unique mission of establishing the liberal order, which it has led for decades. The Westphalian issue has centered on addressing "practical" concerns regarding the

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<sup>94</sup> Y. Silin, L. Kapustina, I. Trevisan, A. Drevalov, China's economic interests in the "One Belt, One Road" initiative. SHS Web of Conferences: Innovative Economic Symposium 2017 – Strategic Partnership in International Trade, 39 (2017)

<sup>95</sup> D. Zhang, L. Lei, Q. Ji, A.M. Kutan, Economic policy uncertainty in the US and China and their impact on the global markets. *Economic Modelling*, 79, 47-56 (2019)

maintenance of robust and productive interstate connections. Families in chaotic environments and the rise of liberal order Friendly relations between major nations facilitated the completion of projects. Profitability demanded that the "troubles of Hobbes," or anarchy and electrical instability, be addressed.

The growth of open and free societies is one of the "Locke opportunities," which includes obedient family members. The Westphalian enterprise revolves around the kingdom's philosophy. Relationships between states were with a high degree of independence. True concepts of the Westphalian system are territorial sovereignty. Integrity and noninterference were taken into account. Establishing a consensus that nations are the legitimate political entities for the lawful power of the existing administration. Extinct in Europe, the Westphalian gadget spread across the continent. New standards and ideas, like as self-commitment and mutual regard among sovereign states, have emerged inside it, thereby consolidating state and monarchy authority. In non-Western emerging nations, political campaigns for decolonization and independence have been launched under the banner of self-determination. It was completed many years after the end of World War II. The violation of Westphalian rules that went unnoticed has nonetheless been reported. In 1919, US, Soviet, and European leaders negotiated a series of postwar agreements, including Vienna in 1815, Versailles in 1815, and Yalta and Potsdam in 1945.<sup>96</sup>

Within the framework of the early 1990s negotiations that ended the Cold War and reunified Germany, the great powers were able to modernize the concepts and practices of their family members. The powers learned how to operate within a multipolar framework of power stability through conflict and accommodation. Over time, the order has remained a decentralized

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<sup>96</sup> ibid

machine. Which big nations engage in competition and balance one another? However, it has progressed. The remarkable abilities have led to the development of principles. Those imprisonment and housing practices that have served their purpose Since the Congress of Vienna in 1815, when counter-Napoleonic states were reintroduced to the superpower club and a convention device today, conflict management and the United Nations Security Council have been intricately connected. This has given a foundation for superior electrical dialogues, which is crucial in the context of these efforts to develop regulations and procedures that increase restraint and accommodation.<sup>97</sup>

The endeavor of establishing a liberal order within this context of change was a challenge. In the nineteenth century, the relational machinery of Westphalian Liberals in the United Kingdom championed internationalism. It became restricted and coexisted with imperialism and colonialism despite the existence of a free alternative and maritime liberty. At various times over the twentieth century, the US surpassed the liberal order. Following World War I, President Woodrow Wilson and other liberals contributed to the construction of a global order based on a collective security framework at the international level. The League of Nations was a group of states that worked together to enforce international law. A territorial force charged with maintaining peace. Open-ended change or national self-determination backed the Wilsonian doctrine worldview — a "one global" vision of nation-states able to trade and cooperate under a multilateral framework of legal rules. As a result of the experimentation with open monetary arrangements and imperial blocs, the liberal order disintegrated during the interwar period. Following World War II, President Franklin D. Roosevelt's administration sought to rebuild a liberal order by advocating for an open society. The United Nations Drawing and a global

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<sup>97</sup> C.F. Bergsten, China and the United States: The Contest for Global Economic Leadership. *China & World Economy*, 26(5), 12-37 (2018)

employer with hegemonic greater powers might work together to preserve peace. Incorporating lessons from Wilson's failure and new ideas from the New Deal, American postwar architects produced more robust concepts for economic and political cooperation, which were reflected by Bretton Woods's organizations. It was worldwide in scope and spirit, but increasingly dominated by the US.<sup>98</sup>

As a result of postwar Europe's inadequacies and the advent of tensions with the Soviet Union, technology concentrated in the West became more prevalent. As the Cold War proceeded, the US acquired increasing economic and security responsibilities. Its independent economic and political apparatus is practically necessary at this time.

A part of the liberal hegemony dominates the world today. Following the conclusion of the Second World War, another covert growth of liberal internationalism got underway, albeit at a slower pace and in competition with Westphalian machine components<sup>99</sup>. This is the definition of human rights according to the Charter of the United Nations, which can be found in the United Nations. The following treaties offer an all-encompassing perspective on rights, individuals, and the sovereignty and order of the international community. Opinions have shifted significantly in the time since the end of the Cold War. International community is given the authority as well as the obligation to illegally intervene in the domestic affairs of sovereign nations. The existing arrangement of the world is more than just symbolic in this regard. In spite of the fact that, for historical reasons, it was initially thought to be American or Western, this method is quite a little more complicated. During the decades that immediately followed World War II. The US achieved its position as the hegemonic leader in the world during World War II by analyzing the

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<sup>98</sup> K. Liu, Chinese manufacturing in the shadow of the China–US trade war. *Economic Affairs*, 38(3), 307-324 (2018)

<sup>99</sup> C.F. Bergsten, China and the United States: The Contest for Global Economic Leadership. *China & World Economy*, 26(5), 12-37 (2018)

benefits and drawbacks of organizing and walking machines. It oversaw a broad international system that was made up of multilateral organizations, alliances, and important links. A consumerist governmental organization that is both hierarchical and liberal. As the principal employer of the liberal international system moves, hierarchical components experience a loss of strength.

There are still present liberal elements. Therefore, even if China and other developing nations strive to contest US management, there will almost probably be opposition. The underlying world order is intact, as are the rights, obligations, and privileges of the major states within the system. In order to further their own objectives, ascending powers are identifying incentives and integration opportunities within this structure.

The conclusion of the Cold War did not in any way, shape, or form bring about even the tiniest bit of a shift in any manner, shape, or form whatsoever that could be attributed to this alliance's dependability in any way, shape, or form whatsoever. Despite the fact that the war had been won, the US remained to serve as what appeared to be a temporary guarantee for the alliance.<sup>100</sup> This allowed the alliance to continue to get its impetus from the US even after the war had ended. Despite of the fact that US and her allies were the victorious in the war but the conclusion of the Cold War had no effect whatsoever on any facet of this collaboration in any way, shape, or form whatsoever.<sup>101</sup> It was irrelevant to all of it. Despite this, China's opening up in 1978 and its subsequent exceptional path of capitalist growth and expansion to its current function as the world's second-largest economic machine with the world's second-largest military have sparked a considerable amount of academic and public debate on whether or not a rising power is

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<sup>100</sup> E.L.C. Lai, The US–China trade war, the American public opinions and its effects on China. *Economic and Political Studies*, 7(2), 169-184 (2019)

<sup>101</sup> *ibid*

inherently incompatible with a rising power. This debate centers on the question of whether or not a rising power is inherently incompatible with a rising power. The question at the heart of this discussion is whether or not a rising power is, by definition, unable to coexist with another rising power.<sup>102</sup> At issue here is whether or not a rising power can, by definition, not coexist with another rising power. This is the point that lies at the center of this topic. In the not-too-distant future, China is going to get to work on altering the norms of the liberal international order and challenging the position of the US as the order's preeminent hegemon. This will be done in an effort to make the liberal international order more favorable to China's interests. The key issue at stake in this conversation is determining whether or not a thriving Chinese economy will have an effect on economies in other parts of the world. The most important question that needs to be answered in this discussion is whether or not a successful economy in China will have an effect on economies in other areas of the world. This is the most important question that needs to be answered. The question of whether or not a booming China will have this effect has been the primary point of contention throughout this discussion. This is because China is currently in the position of being the center of gravity in the world. This is because China is currently in the position of being the center of gravity in the world. The reason for this is as follows. After taking into mind the fact that China is currently in the leading position, we decided to begin this discussion.

China is a global powerhouse in terms of the size of its population and its economic growth potential. Much of the discussion in international relations and international political economy regarding China's rise and the future of the liberal order, as well as the relationship between China and the US, has centered on opposing US and European theoretical frameworks and

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<sup>102</sup> Wilbur Ross, "American Genius is Under Attack from China," Financial Times, August 14, 2017.

perspectives. The majority of this research appears to gloss over the details of China's political economy since it lacks empirical information on Chinese elites' perspectives and objectives, as well as empirical examinations of 'national interests' in certain policy. Its frequently authoritative tone is the result of a deliberate commitment to theoretical assertions. This chapter indicates that current research in IPE and other fields has begun to overcome these shortcomings.<sup>103</sup>

The majority of realism depicts inevitable interstate conflict, particularly between the US and China, and one of the most typical conventional situations depicted is one of war and resistance. The majority of this article treats the fate of US-Chinese homes as a variant of "Thucydides' entrapment". There is a widespread belief that China's rising power (not only economically, but also militarily) will follow the same pattern as that of other previously rising hegemons, posing a threat not only to the current global power but also to its immediate allies. It is highlighted that cultural (and often racial) differences between China, the US, and Western Europe make it difficult to forecast the effects of China's ascent. Despite linguistic, cultural, and liberal-ideological connections, Schake argues that the shift from British to American dominance was marked by "turbulence".<sup>104</sup>

The question underlying this literature is whether or not and when particular major and minor nations should take action to counter China's rising power, or whether they should instead choose a 'hedging' or 'conengagement' approach that combines containment with engagement. This study's most significant empirical flaw, according to the majority of its reviewers, is that it overlooks the substantial financial (and other types of) interdependence between contemporary major nations.

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<sup>103</sup> Mary Amiti et al., "The Impact of the 2018 Trade War on U.S. Prices and Welfare," NBER Working Paper No. 25672, March 2019; and Pablo D. Fajgelbaum et al., "The Return to Protectionism," NBER Working Paper No. 25638, March 2019.

<sup>104</sup> Mallory Shelbourne, "White House Trade Adviser Dodges Over US Leaving World Trade Organization." March 4, 2018,

Consequently, these analyses often ignore the fact that major nations have too much at stake in a globally interconnected monetary system and in each other's economies (from currency exchange to T-payments) to risk a full-scale verbal conflict. Second, on a larger theoretical scale, the realist argument presupposes that every great power behaves identically, i.e. it restricts the variability in state world order-society models and, by extension, differences in lifestyle, philosophy, records, and unique political and economic institutions. This overlooks a crucial aspect of China's development trajectory and, by extension, the source of its rising power: the distinctive characteristics of its state-controlled economic system, which is characterized by a strong political culture and affiliation.<sup>105</sup>

Consequently, maximum realism viewpoints often present a summary of the research focused on domestic variables, despite the fact that there can be a smaller frame of more targeted studies, which frequently take a neo-classical realist technique that does incorporate domestic variables. Despite the fact that there may be fewer studies, this is the case. However, these strategies continue to view the local community as the primary actor and assume that governments may go even further; that is, they may respond to systemic threats to vital national interests by exerting pressure at the local level. The revised plan takes into account the likelihood that authoritarian "nation capitalisms" such as China may need to respond more aggressively to structural problems and use their firms as "weapons of war."

Although contemporary realists fail to accurately account for variation in state-society models or concede that China does not fit within their theoretical parameters and therefore cannot be explained using it, realists continue to raise important questions about the nature of state behavior and geopolitical conflict, especially when new powers emerge. A prime illustration is

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<sup>105</sup> Lau, J. Lawrence; "The China-U.S. Trade War and Future Economic Relations", p. 25-28

the Belt and Road Initiative (BRI). Despite Xi Jinping's claim that BRI is the initiative of the century, it may hold special appeal for European and Asian nations. However, it also raises questions about China's geo-financial intentions and may serve (whether or not intentionally or not) as a potentially divisive tool to foster friction within the European Union, playing on character member u. S. Hobbies against each other; questions that take on heightened significance as the president of the contemporary American hegemon challenges the very foundations of the international order and its position. However, we anticipate that the contestation is shaped by a variety of factors, including the right U.S.-society complexes of contemporary and developing world powers, which entail various histories, worldviews, social contacts, and objectives. As they will have a significant impact on the configuration and nature of primary power competition and collaboration, we believe that these distinctions and particularities must be taken into account before firmly assuming that all developing states will continue to grow in the same manner.

#### **4.2.2. World Trade Organization (WTO):**

The potential essential condition of co-optation is characterized by China's eventual absorption into the liberal international system. The likelihood of the US and Western nations supporting China's economic rise inside the liberal system is emphasized in this scenario, which is often determined from liberal (institutionalist) vantage points. As such, China's membership in the World Commerce Organization (WTO) was a crucial step towards full participation in the liberal system of global trade, and as previous research has confirmed, China is currently operating as a WTO rule-taker in the majority of instances.<sup>106</sup>

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<sup>106</sup> Guoyong Liang, Haoyuan Ding "The China-US Trade War" p. 20-25

However, from a liberal point of view, the most important factor in China's successful integration is the US' willingness to adopt liberal laws and norms, as the US incorrectly believes that liberal norms are superior and generally appropriate. This makes the US the most important factor in China's successful integration. This order has been criticized for being hierarchical, imperialistic, elitist, and racially discriminatory; however, liberal internationalists maintain that they support a post-1945 system that is based on liberal, egalitarian, and democratic norms. These norms include the rule of law and the equality of sovereign nations. This helps to explain why liberals have such a restricted view of assimilating and absorbing rising nations like China, as it helps to explain why liberals have such a limited perspective of assimilating and absorbing growing nations.<sup>107</sup>

Notably, despite the collapse of the unipolar dream and the diminishing likelihood of the US as a "benign hegemon" unilaterally imposing its privileges on China – at the same time that the US itself appears to be the greatest threat to the liberal order – faith in the resilience and general desirability of liberal institutions persists. This attitude, however, disregards the apparent existence of multiple altering state-society patterns, as well as the viability and, undoubtedly, the legitimacy of a number of potential norms and worldviews. Additionally, it precludes the possibility of a reciprocal translation or an approximation of comprehension. Therefore, this scenario is contingent upon China's eventual convergence to liberal norms and institutions, which may necessitate the abandonment of China's 'statist' and largely non-liberal monetary and political governing style.

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<sup>107</sup> B.A. Iqbal, N. Rahman, J. Elimimian, The future of global trade in the presence of the Sino-US trade war. *Economic and Political Studies*, 7(2), 217-231 (2019)

We reject the liberal institutionalists' reputation for the significance of institutional ties and the expansion of economic interdependence, both of which serve as structural limits on the propensity of major countries to engage in conflict. Additionally, one could argue that such financial and social structural kinships allow elite socialization beyond national borders, which may improve the chance of collaboration and affinity.

However, interdependence and the ability to cooperate do not necessarily imply co-optation. It must result in a reevaluation and reformulation of cooperative standards; otherwise, it could lead to disagreements over interdependent conditions. China's rise and extended interaction with the liberal international order and its monetary and social systems (including institutions) necessitates knowledge of China's domestic version of the US and how this influences and is inspired by the liberal order. To understand China and other emerging economies' international and domestic behavior, one should look deeply into domestic politics and ideational cleavages and their evolution over time, utilizing a "second picture" IPE perspective on how the domestic political economic system translates into coverage choices at the level of global regimes, in this case assets regimes.

### **4.2.3. Countering China:**

There is a growing body of literature, including *The Contradictions of China's Political Economy* by Freeman and *Endowment*, on China's domestic political economy beyond the two extremes that examines China's institutions, its precise form of capitalism, and the monstrous and oftentimes diverse configuration of its domestic political and economic networks.<sup>108</sup> China's party-state-driven capitalism is fraught with inherent tensions and contradictory outcomes, and it

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<sup>108</sup> Paal, Douglas H., and Douglas H. Paal. "Contradictions in China's Foreign Policy." Carnegie Endowment for International Peace, Spring 12, 2013. <https://carnegieendowment.org/2013/12/13/contradictions-in-china-s-foreign-policy-pub-53913>.

also provides evidence for novel forms of capitalist development, such as the combination of state-centric modes of governance at different administrative echelons with bottom-up networked modes of entrepreneurship. Despite widespread agreement on the globalization of Chinese capitalism, particularly in the manufacturing and exchange sectors as opposed to the financial zone, the authors are cognizant of the need for additional research into the effects of these Transnationalizing dynamics.<sup>109</sup>

Everything from the uniqueness of China's domestic political economy to the complexities of Chinese electric dynamics in the context of global political economy and international governance institutions can be seen in this context. Studies shed some light on the complex and often contradictory repercussions that have resulted from China's move towards internationalization.<sup>110</sup> This is due to the fact that China's form of capitalism is complicated and difficult to explain, with the party-kingdom functioning as both an arbitrator and an alternative barrier. This highlights the importance of differentiating between distinct actor configurations and trajectories in a variety of institutional systems and conflict zones. Our Forum makes a contribution to the ongoing conversation by picking up in which a previous special problem of this magazine focused on "IPE with Chinese characteristics" (Chin, Pearson, and Yong, 2013).<sup>111</sup>

Previous administrations, including those during the Cold War and including Trump's, have put a spotlight on the close relationship that exists between the international policy elite and the business elite. This close relationship has been a key source for liberal administrations' liberal foreign policy. In spite of the fact that Donald Trump ran for president on a platform that called for "draining the swamp," he has filled his cabinet with the majority of the Wall Street elite that

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<sup>109</sup> G. John Ikenberry "A New Order of Things? China, America, and the Struggle over World Order"

<sup>110</sup> Freeman, Charles W., and Nicholas R. Lardy. "The Contradictions of China's Political Economy." *Asia Policy*, no. 20 (2015): 160–63. <https://www.jstor.org/stable/24905077>.

<sup>111</sup> *ibid*

he had pledged to break with. However, his top foreign policymakers appear to be significantly far less immersed than their predecessors in the company-funded, "globalist" think-tank community that has historically composed the upper echelon of the US' foreign policy establishment. This could also result in a more significant shift in US foreign policy, though this is dependent on the findings of future empirical research on the networks that underpin the Trump administration and an analysis of how this influences Trump's decision-making regarding international policy and the USA. The China relationship study schedule is one that is both exciting and fascinating. In a same vein, the Chinese international insurance elite networks as well as the special method by which they are tied to the domestic political and financial machine as well as China's Trans nationalizing capital.

It is anticipated that unique networks and configurations of individuals and interests will be connected with exceptional problem areas and institutions, with one important route dimension being that of state-owned and private companies.

On the other hand, quite a few constellations can also be anticipated within Chinese businesses, which will result in a range of Chinese behaviors. China has participated in rule-bending or rule-breaking within the WTO in industries such as metals and agriculture, despite the country's reputation as a practical rule-follower and a practical rule-follower that adheres to the rules<sup>112</sup>. Future research along these lines, examining the shifting elite networks and elite strategies on both sides of the US–China relationship, may be crucial to comprehending how this relationship will evolve in a coexistence context in the future and whether or not this will result in a significantly higher quality international order.

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<sup>112</sup> Dan Steinbock, "Will Trump Push for An 'America First' Trade Agreement in Asia Modelled on His New NAFTA Deal?," South China Morning Post, October 25, 2018.

In response to China's alleged rule bending United States adopted neo-mercantilist policies to counter China and incentivize its domestic industry.

### **4.3. Current trends under the Biden Administration:**

As a result of the trade war that began in 2018 during the administration of former US President Donald Trump, both the US and China both are now required to pay higher import duties on goods from the opposing countries. Trump's presidency and the beginning of the trade war occurred simultaneously. The end of the trade war brought about this development. Since the election of Donald Trump as president, the US and China are engaged in a trade war. The price increase of imported goods has disrupted the supply chain, with global repercussions for consumers and companies. However, geopolitical concerns took precedent over financial ones at the Tuesday meeting. Since geopolitical crises are more difficult to predict than financial ones<sup>113</sup>.

The vice president of the US, Joe Biden, gave a brief address on China's "unfair exchange and financial restraints," which impact the American labor force. In contrast, he raised concern on violations of human rights in Xinjiang, Tibet, and Hong Kong, as well as US funding to Taiwan. In addition, he emphasized the US' support for Taiwan. This comment pertains to the assistance granted to Taiwan by the US. According to a report published by the South China Morning Post on Wednesday, citing a source with knowledge of the situation, Vice President Joe Biden reportedly exerted pressure on the Chinese delegation attending the meeting in an effort to help reduce the rising global price of energy. According to reports, the Chinese delegation was pushed to release a share of their crude oil reserves in order to reduce global energy prices. Sources indicate that this action was taken to help make the rising expense of global energy more

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<sup>113</sup> 17Dan Steinbock, "Trading the Global Future II: Bad Policies," Georgetown Journal of International Affairs, August 31, 2018

manageable. According to a Hong Kong rumor magazine, China stated it was "open" to the idea but has not yet decided whether to accept the offer. In January 2020, President Trump of the US and President Xi of China signed the first portion of the trade agreement they had been negotiating. China must make significant economic and exchange changes in the areas of intellectual property, technology transfer, agriculture, financial services, and foreign exchange in order to meet the objectives of the agreement<sup>114</sup>. These revisions were necessary for China's participation in the accord. China was compelled to implement these modifications in order to comply with the terms of the agreement.

Under the terms of the agreement it had signed with the US, China was obligated to increase its purchases of agricultural products, commercial items, herbal resources, and services over the next five years. These requirements were mentioned in the terms and conditions text of the agreement. The intention was to make these acquisitions during the duration of the contract. China did not hold up its end of the arrangement over the previous year, purchasing only around 60% of what it had agreed to purchase. This was a violation of the terms of the transaction. This conduct clearly violated the terms of the agreement. The administration of Vice President Joe Biden has expressed its intention to comply with the conditions of Section One of the Agreement, and Beijing intends to adhere to the goods and services trade treaties. These two claims are incorporated in the previous claim.

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<sup>114</sup> Dan Steinbock, "The Great Shift: The Shift of Globalization from the Transatlantic Axis to China and Emerging Asia," *China Quarterly of International Strategic Studies*, Vol. 3, No. 2 (2017), pp. 193–226.

## Conclusion and Findings

This trade war or trade conflict between two powers—United States and China has raised serious questions about the future of US-led Liberal Order. How United States has handled this conflict has seriously questioned the United States position in this system because US has always been the biggest advocate of Liberal International Order and has always portrayed it as the only sustainable model for the world to govern. Meanwhile, China is conveniently navigating through this system even being an illiberal or communist state. China has developed a system that is a mixture of both Liberal and socialist systems and that turned out to be the best model for China.

World Order and Global Economic system are linked with each other. One cannot study either without the other one. United State is right now the biggest power on this planet and its position has been challenged by China. In order to counter china Unites States has adopted neo-mercantilist policies. Neo-Merchantilism is quite an opposite of liberalism or economic liberalism that US has been advocating from from many past decades. United States is by far the greatest power of this planet and if United States decides to abandon this existing system than what would be its future?

1. Many efforts by far are made to neutralize or diffuse the situation. President Trump and Chinese vice Premier Li Hè, the eleventh-ranked official in the Chinese government, participated in an unpleasant signing ceremony. This occurrence was arduous for both parties involved. The ceremony, held at the White House, was attended by the two most powerful persons in the world. The purpose of the event was to announce an end to the conflict between the two parties, which had been occurring for some time prior to its holding. They had been at odds for a considerable amount of time prior to the ceremony.

2. According to insiders, the agreement stipulates that China will purchase an additional \$200 billion worth of American goods over the following five years.<sup>115</sup> This is a rise from the levels in place when the original disagreement was resolved in 2017.<sup>116</sup> However, the entirety of the settlement's textual substance has not yet been made available to the general public. Due to the fact that it has not yet been finalized, this is the case. According to the publicly released settlement document, China pledges to protecting US intellectual property, prohibiting coercive generation transfers, and refraining from using currency devaluation as a substitute weapon. All of them are settlement-related obligations. As part of a deal to prohibit China from employing currency devaluation or other types of warfare, China provided these assurances. In addition, it indicates that China will defend intellectual property owned by the US as part of the pact. Moreover, it ensured the formation of a system for enforcement, which might lead to the introduction of import price lists if problems are not resolved. This is something that is guaranteed by law.<sup>117</sup> Since the initial signing of the agreement six months have passed, and the likelihood of China achieving their purchasing objectives has reduced significantly. This dilemma is a consequence of the passage of time.
3. According to Bloomberg estimates based only on data from the Chinese Customs Administration, at the end of the first half of 2020, China had acquired 23% of the year's overall purchase objective. This information comes solely from the Chinese Customs Administration.

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<sup>115</sup> D. Dongsheng, G. Luft, D. Zhong, Why did Trump launch a trade war? A political economy explanation from the perspective of financial constraints. *Economic and Political Studies*, 7(2), 203-216 (2019)

<sup>116</sup> *ibid*

<sup>117</sup> *ibid*

4. Even though the fact that COVID-19 created disturbances in alternate float can account for a portion of the delay, a great deal of it can be traced back to the settlement's infeasibility from the beginning. This is due to the fact that COVID-19 disturbed alternate float. This is the result of COVID-19 disrupting the alternate float, which led to this result. According to Brad W. Setser and Dylan Yalbir of the Council on Foreign Relations, China pledged in the segment one contract to purchase around \$60 billion more in US goods in 2018 than it bought in 2017<sup>118</sup>, for a total of approximately \$180 billion in US goods in 2018. This puts the total value of Chinese imports from the US to almost \$180 billion. This puts the total amount China has spent on American-made goods to almost \$180 billion. Despite this, the quantity of goods transported to China by the US in 2018 represents a considerable reduction from 2017. In other words, Beijing paid for the settlement by effectively guaranteeing future purchases of substantial quantities of American goods. The US was given this guarantee. This was performed to ensure compliance with the agreement. According to one interpretation, President Trump's victory announcement is little more than a standard IOU.<sup>119</sup>
5. The passage of time will indicate if the enforcement enhancements included in the settlement will work where others have failed, and the success of the agreement will depend on China's willingness to translate agreements into regulations and, most critically, to put them into effect. The passage of time will reveal whether the settlement's ideas for enforcement will succeed where others have failed. However, the most important question for the US is whether the monetary costs it incurred for these

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<sup>118</sup> *ibid*

<sup>119</sup> 3. B.A. Iqbal, N. Rahman, J. Elimimian, The future of global trade in the presence of the Sino-US trade war. *Economic and Political Studies*, 7(2), 217-231 (2019)

enforcement agreements were worth the loss of billions of dollars in value, the loss of tens of thousands of jobs, the stagnation of US manufacturing, and the devastating effects of alternative warfare on American farmers. Given that the current status of the US economy is at its worst point since the Great Depression as a direct result of the introduction of the COVID-19 virus, this is an extremely significant topic. The last time this occurred was during the Great Depression. In the end, the phase one settlement was not satisfactory due to the fact that it, along with the trade battle, caused significant damage to the economy of the US while failing to make meaningful headway in fundamentally repairing the structural imbalances in the trade relationship between the US and China. In other words, the settlement was not satisfactory due to the fact that it was not satisfactory due to the fact that it caused significant damage to the economy of the US.<sup>120</sup> To phrase it another way, the phase one settlement and the trade war both contributed a large amount to the harm that was incurred. To put it another way, the first phase of the deal was disappointing because it did not go far enough in significantly addressing the fundamental inequities that exist in the trade relationship between the US and China. To put it another way, the deal did not go far enough in addressing the fundamental inequities that existed.

6. The trade deficit that now exists between the US and China is directly responsible for the current state of these imbalances. Due to the trade war that began under previous US President Donald Trump, both the US and China must now pay higher import charges on items from the opposing country. Trump's presidency and trade war began concurrently. The US and China are in a trade war since Donald Trump's election. Import price

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<sup>120</sup> Q. Bui, N. Irwin, How Much Will the Trade War Cost a Typical American Family?

increases have disturbed the supply chain, affecting consumers and businesses globally. Tuesday's meeting prioritized geopolitical issues over financial issues because global crisis is harder to forecast.

7. Joe Biden spoke on China's "unfair trade and financial restraints" on the American workforce. He voiced concerns about human rights violations in Xinjiang, Tibet, and Hong Kong and US aid to Taiwan. He emphasized U.S. support for Taiwan. This is about U.S. aid to Taiwan. South China Morning Post said on Wednesday, citing a source with knowledge of the matter, that Vice President Joe Biden pressured the Chinese delegation during the meeting to assist cut global oil prices. According to sources, the Chinese delegation was pressed to disclose crude oil reserves to cut global energy prices. According to sources, this measure was intended to reduce global energy costs. Hong Kong rumor magazine said China is "open" to the concept but hasn't decided whether to accept. Trump and Xi inked the first part of their trade pact in January 2020. China must make improvements in intellectual property, technology transfer, agribusiness, financial services, and foreign exchange to satisfy agreed goals. China's participation required these changes. China made these changes to comply with the agreement.<sup>121</sup>
8. China agreed to enhance its procurement of agricultural products, commercial items, herbal resources, and services during the next five years. The agreement's terms and conditions list these requirements. These purchases were planned during the contract's length. China barely bought 60% of what it pledged to last year<sup>122</sup>. This broke the deal.

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<sup>121</sup> L. Chunding, H. Chuantian, L. Chuangwei, Economic Impacts of the Possible China–US Trade War. *Emerging Markets Finance and Trade*, 54(7), 1557-1577 (2018)

<sup>122</sup> C. Freund, M. Ferrantino, M. Maliszewska, M. Ruta, Impacts on global trade and income of current trade disputes. *Macroeconomics, Trade Investment (MTI) Practice Notes*, 2, 11 (2018)

The Biden administration plans to comply with Section One of the Agreement, and Beijing will adhere to goods and services trade treaties. This claim includes these two.

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