US-China Trade War: Causes, Impacts and The Unclear Future of Bilateral Relations

By Danial Parsapour

Institution for Economic history and International Relations
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Supervisor: Akhil Malaki

Stockholms universitet

Abstract

The start of the trade war between the United States and China in 2018 has changed the stage of international relations. Growing tariffs by both the American and Chinese governments has threatened the stability of international trade and multilateral cooperation. Governments have framed trade deficits between United States and China as cause of this trade war. Could growing trade deficits be the only explanation for rising tensions in trade between the United States and China? This study aims to research the causes of the trade war between the United States and China on other grounds than just growing trade deficits. As two major world economies, the trade war between the United States and China has vast complications for the global economy. Growing geopolitical tensions between the United States and China could spark another cold war for the world as this forces other countries to choose between two spheres of global economic power. Tensions such as trade wars are prone to escalation if the future trade outlook between the United States and China becomes dark. This study gives a deeper insight into the bilateral trade relations between the United States and China and the implications of this relationship for the global economy.

Keywords: United States and China Relations, Trade War, Future Trade Expectation, Global Economy, Multilateral Trade Order

Abbreviations

AI: Artificial Intelligence

CRS: Congressional Research Service

DSB: Dispute Settlement Body

EPN: Economic Prosperity Network

FDI: Foreign Direct Investment

GPD: Gross Domestic Product

IPE: International Political Economy

IMF: International Monetary Fund

MFN: Most Favored Nation

PTA: Preferential Trade Agreement

R&D: Research and Development

UN: United Nations

UNCTAD: United Nations Conference on Trade and Development

USTR: United States Trade Representative

WB: World Bank

WEF: World Economic Forum

WTO: World Trade Organization

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1. Introduction

Whether to choose between protectionism or free trade policies has a prolonged history of over two hundred years. Free trade was advocated by Adam Smith in his book *The Wealth of Nations,* questioning the mercantilist system of trade with high protective tariffs of the time in 1776. Smith's arguments contested that high tariff on imported goods destroys the competition between domestic and foreign producers of goods. This creates a need for more incentives for domestic producers to improve production. People are directed to only buying domestic goods as foreign goods in a system with high import tariffs are more expensive. However, Smiths' arguments did not approve the abolition of all tariffs as this would, according to Smith, destroy domestic production with the inflow of cheap foreign goods. Abolishing all imported tariffs would also create high levels of unemployment because of fallen domestic production and domination of foreign goods in the internal markets of a country (Oermann and Wolff, 2022: 79-81).

The international trade regime is collectively regulated under the rules of the WTO (World Trade Organization). The golden principle of WTO is the MFN (Most Favored Nation) clause, a non-discriminatory act among members. Under the rules of WTO, receiving benefits from preferential trade measures like lowering of tariffs from a country needs to be shared with other members of the organization equally, thus creating a network of mutual preferences among the member states. The level of engagement among member countries in between are at different levels. States grant trade preferences either on bilateral or multilateral levels as they function at regional cooperation or other forms of bilateral cooperation among member countries (Akman et al., 2020: 362).

The United States and China are the two most powerful economies in the world in terms of gross domestic product (GDP). The United States has been for many years the biggest economy in terms of GDP, while the Chinese economy reached 40 percent of the American economy in 2010 in terms of GDP. The American and Chinese economies have the world's most significant budgets in many areas, including defense budgets and a high share of world trade. United States government has since March 2018, under the leadership of President Trump, started a series of

tariff-raising measures targeted at China, which has been undermining the global liberal trade regime functioning since the end of World War II. This bilateral trade war can escalate to a multilateral trade war or even a physical war which could impact and involve other countries (Steinbock, 2018: 518-520).

Globalization today has created a network of connections between countries in different sectors, such as finance and trade. This globalized world has made countries interdependent and thus non-compliant to the forces that embrace isolation and self-dependency. The term chained globalization best describes this interdependency between countries. Chained globalization has, through competition and dependency on other countries, which includes rival countries, created a vulnerability that many countries try to avoid or break through. The economies of the United States and China are highly intertwined, and thus, the idea of decoupling or disconnection between two highly competitive and dependent economies seems unrealistic. Creating a trade war between the United States and China has the danger of sparking a new Cold War in which other countries must choose between two economic blocs (Farrell and Newman, 2020: 70-71).

1.1 Motivation and research gap

This research finds that the trade war between the United States and China as to be one of the most critical challenges to the stability of international relations at the current time. Addressing the reasons for and impacts of this trade war on relations between the United States and China, which are two economic powerhouses, is vital for the future framework of global affairs. This paper finds the effects of this trade war beyond the bilateral relations of United States and China as it would affect the global economy. It is, therefore, vital to further examine the causes and arguments for this trade war to understand future trends and changes in the international political economy. Understanding the trade war between the United States and China on a deeper level helps policymakers in prevent an escalation of this trade war to dangerous levels and prevent threats to the international multilateral framework.

The existing literature on the trade war between the United States and China analyzes by seeking hegemony or balance of power relations between the existing superpower in the United States and rising superpower China. This study intends to provide another dimension in analyzing the trade war by using the variable of future expectations. Here the role of the leaders in United States and China in engaging for trade or starting trade war is more prominent. This

study uses descriptive statistics alongside the qualitative approach to cement the arguments made better. By using the trade expectation theoretical framework, a dynamic approach in analyzing the trade war between United States and China is approached in comparison to the static approaches of grand theories in international relations. This study intends to fill the gap in research by using dynamic approaches instead of static approaches in contemporary international relations topics. This research aims not to reach specific answers to the research questions but rather to find ongoing trends, impacts and changes in the trade war and bilateral relations of the United States and China.

1.2 Research Questions

With the background explained above and the importance of the United State and China trade war for the global economy, the following questions are assigned for this research:

i) Why is there a trade war going on between United States and China?

ii) What are the impacts of the trade war between United States and China on global trade?

2. Literature review

2.1 What is trade war?

Definition of trade wars as a concept within international political economy is as conflict between states where the use of punitive tariffs aimed with the goal to change the economic policy of an adversary. Trade wars differ from trade disputes, where other measures, such as anti-dumping, are implemented and actions are taken within the multilateral political order for solving trade disputes. Trade wars drive import costs and change the trade balance between states involved in the trade war. Trade wars aim to change the flow of trade and cause economic damage to targeted states. Historically, trade wars have been fought between states with significant economic arsenals. Famous examples are the trade wars involving the United Kingdom, The Netherlands and France like the Anglo-French trade wars or the Anglo-Dutch trade wars (Liang and Ding, 2020: 6-7).

To understand the aims of a trade war, one needs to understand the extent and measures the involved parties take. Trade wars, in the purest form, are economic measures states take to reach economic ends. In historical cases, however, states have taken economic actions taken to reach political ends. An example of this case is tariffs imposed by the French state on Italy for joining the Triple Alliance alongside the German state. The extent of trade wars is defined by duration and intensity of actions taken by states. To separate trade wars from trade conflicts, actions by states have a continuum and prolong over a longer period, and intensity levels of action reach high levels of the political hierarchy. Continuum and prolonging in trade wars is observable when tariff retaliations occur over several rounds. The intensity of actions is when decision-making over actions reaches higher levels of the political spectrum and is not bound to the customs union of a country. For example, the demands by an industry to government officials in imposing protective tariffs on the industries of an adversary (Conybeare, 1987: 3-6).

In the context of the United States history, the Smooth Hawley Tariff Act started in 1930 with a focus on raising tariff levels on 20,000 goods imported to the United States is one of the significant trade wars that affected the global economy. Smooth Hawley Tariff Act faced retaliation from United States trading partners including close allies and neighbors such as Canada. The average tariff levels on imported goods rose from 39 percent to 53 percent in the United States. The following aftermath of this trade war was the global economy plunging into

a recession, and the United States' national income decreased. Additionally, the United States share from total world trade decreased to 11 percent in 1935 from 16 percent in 1930 (Boët and Laborde, 2017: 2279-2280)

Trade wars in industrialized concepts of modern-day international relations are prone to the effects of latency and gradual maturing. This means that states, during the long process of industrialization, need more and more access to raw materials, skilled workforce, investments, airports, railways etc. This creates an environment where states are in competition and tension with other states and where potential allies and enemies comes generated. Even in a peaceful and fair environment for competition among states, there are always ambitions to use trade as a ladder for reaching the top of the hierarchy where only one state dictates the rules of the game for trading order (Oermann and Wolff, 2022: 2-3).

Trade wars has relation to the concept of terms of trade that each country provides to its trading partner. Terms of trade has connection to the playing field each country provides to foreign companies for fair competition in trading. Factors such as subsidies each state provides domestic companies or fluctuation of exchange rates whether the state manipulates its exchange rates, will affect the playing field or the competition between domestic and foreign companies. The role of international organizations such as the World Trade Organization (WTO) in leveling the playing field at the international level between states is significant. The transition of trade conflicts, which continually exist to some degree between states, to a full-scale trade war will affect the entire economy of states. This shows the linkage between trade wars and losses of domestic job opportunities and involvement of core political interests such as national security and issues related to territorial changes (Oermann and Wolf, 2022: 16-18).

2.2 United States and China trade relationship

United States and China have a long history of bilateral relationship and since the end of the Second World War, this relationship has undergone many changes. The establishment of the communist party in the People's Republic of China and the intervention of both China and the United States in the Korean War (1950-1953) made the two states enemies of each other. The positive breakthrough in bilateral relations came in 1971 with the visit of United States secretary of state Henry Kissinger in China. This led to gradual normalization in bilateral relations and uplifting of the trade embargos imposed by United States and the retainment of China's

international status in the UN (United Nations) and the Security Council of the UN. The later breakthrough was the accession of China to the WTO in 2001 which normalized Chinese trade relations with the world and further accelerated an uprising Chinese industry export to the rest of the world (Lau: 2018: 17-19).

The Chinese economy has experienced high levels of export-led growth compared to its counterpart, the United States economy since the accession to WTO. The total size of trade, that is imports and exports in the United States were four times higher than in China in the year 2000. This gap was at an even point in 2012. Export levels have increased eight times in China between 2000 and 2013 while in United States this rate has only doubled in size during the same time. United States contribution to Chinese trade surplus stands at 3.1 trillion US dollars of a total of 4.2 trillion US dollars since the year of 2001 with Chinas accession to the WTO. China has though invested in the United States economy by buying United States treasury bonds which has created an interdependent relationship between the two countries. The Trade deficit has accelerated at a high rate between 2001 and 2015 rising from 83 billion US dollars to 366 billion US dollars. Overall, these developments have created an imbalance in the trade relationship between the United States and China (Liang and Ding, 2020: 29-32).

In 2018, during President Trump's administration in United States trade war started against China with United States imposing a 25 percent tariff level on imported goods from China worthy of 50 billion US dollars. The Chinese government responded by imposing the same level of tariffs on goods imported from the United States. In the next round, the trade war escalated to 200 billion US dollar imported goods to United States from China by a 25 percent tariff level. However, the response from China only counted to 60 billion US dollars for imported goods from the United States. By comparing the figures of the amount of goods, the Chinese government response was seen as unmatching. The reason behind it is the trade imbalance between United States and China. The United States imported goods from China amounting to 505 billion US dollars while China only imported 130 billion US dollars in 2017. The figures from the year before the trade war that is 2017 shows that United States had greater leverage in imposing tariffs than China due to higher import levels (Liu and Woo, 2018: 320).

The tension in the trade relationship between the United States and China has deeper roots than trade deficits and cannot be tied to only one administration or leadership in each country. Since the onset of the financial crises of 2008, which affected the United States economy negatively,

the Chinese approach and confidence internationally have grown. This confidence growth follows the assumption of a global decline in American leadership. Although tensions rose steadily during the Trump administration, the frosty relationship between United States and China has continued during Biden administration of United States. Anthony Blinken, secretary of state in the Biden administration, has emphasized the strategy of alignment with United States partners in forming alliances against China. Investments in the American economy is another slogan that shares the same policies followed by President Trump. China, during President Xi's leadership, is pursuing a foreign policy centering on the Chinese role in regional development and greater Chinese role in the international arena. China is predicting changes in the global structure and pursuing a policy that gives China a leadership role in the global environment (Grano, 2023: 4-7).

2.3 Trade war between United States and China

There is a common belief that trade wars have no winners but many losers, which among them are the trading partners engaging in trade war, the overall decline in global trade and the negative impact on economic growth. There are gains to made in economic negotiations as sides tries to solve disputes connected to the trade war. Both sides have many different concerns in the United States-China trade war. One of these concerns is gaining a lead within industries with high technological profiles, as the United States is accusing China of using American technology for Chinese industrial ambition. As a result, the United States has imposed sanctions and embargos on China in industrial technology (Kapustina et al. 2020: 2-3).

Innovation is a crucial element and cornerstone for a thriving economy. To have innovation within an economy, there is a need to be invested in R&D (research and development) of a country on a consistent basis over periods of time. Three different subcategories of R&D departments receive investments in every country which are basic research, development and applied research. Among these three categories, basic research has a fundamental value in the innovation of new discoveries. That is why China and United States invest in different areas of R&D while competing to access new knowledge and inventions. The level of investments from China in basic research has been surprisingly at low levels of 5 percent as a share of total R&D expenditure between 2007 and 2016 while for United States 17.3 percent (Lau, 2018: 127-129).

Other than rivalries related to high technological industries, United States and China have several other areas of disagreements. The undervaluation of the Chinese national currency, the renminbi, which United States accuses the Chinese government of allegedly playing a part. The non-accessibility of the Chinese market to American firms and the support of the Chinese government for firms owned by the government has created an unfair environment for competition. And last, there are accusations from the United States government towards China for not following rules for intellectual property rights (Lau, 2018: 2).

To understand the ongoing trade war between the United States and China one needs to understand the domestic politics of each country. In both the United States and China, a movement towards confrontational policies against one other rather than cooperation has been a prominent feature. In the United States, during both President Trump and Biden's era, that is among Republicans and Democratic members, there is a mutual understanding of China as a rival. The National Defense Strategy of President Trump administration has found the relationship with China as a strategic competition in the year 2018. Other than that, China has been identified as a threat to American security by the National Security Strategy in 2017. In China, under President Xi, a concentration of power has taken place, and the limits on presidential terms and collective share of power within the communist party have vanished. This one-person rule approach from President Xi has the potential to move to nationalistic policies from China which in turn could cause tensions in the foreign policy and international sphere (Carlson, 2023: 57-59).

The trade war between the United States and China is not a battle between two countries, but it involves other countries. The United States started in November 2019 a network of like-minded countries to working against the Chinese economy by not becoming dependent on it. This network of countries known as the EPN (Economic Prosperity Network) works as an alliance based on shared beliefs in many areas, such as human rights, economic transparency, supply chains, energy, trade etc. Countries involved in EPN are mostly United States allies in military and economic areas, such as the members of the G7, in addition to Latin American countries willing to reallocate production from China to other places. United States encouraged other countries, such as South Korea, India, Australia and Vietnam to join the EPN alliance in the aftermath of the COVID-19 crisis. The values of the EPN alliance and the firm stance against China-based supply chains of goods have led members to choose between Washington or Beijing. There are considerations to be made regarding the role of a liberalized trade order based

on free trade, as it is clearly not mentioned in the values of the EPN alliance (Heo, 2022: 104-106).

2.4 The role of WTO in the US-China trade war

The WTO as an intergovernmental organization has since its establishment in 1995 pushed for the agenda of promoting free trade and resolving trade dispute among member countries. The WTO has a multilateral approach towards member states and through consultation encourage members against unilateral punitive action in cases of trade disputes. The Dispute Settlement Body (DSB) of WTO has an arbitrary function where cases of trade disputes between member states are presented and resolved. The functionality of dispute settlement mechanisms of WTO is under question mark since the trade war between United States and China could not be prevented or resolved by the WTO. Both United States and China are referring to domestic laws incorporated by respective governments when imposing tariffs on each other and thus neglecting WTO regulations for fair trade among members. United States is referring to Section 232 of Trade Expansion Act set up in 1962. The tariffs against imported Chinese goods is seen as necessity for the sake of national security by Trade Expansion Act. China is referring to article 47 of its Foreign Trade Law passed in 2004 as this law empowers the government of China in taking retaliatory actions against any country damaging Chinese interests by violating mutually accepted treaties or agreements (Adekola, 2019: 125-129).

Since the accession of China to WTO in 2001, both United States and China has actively confronted each other on trading disputes in front of the DSB. China was due to lack of capacity in international legal system not an active member within the appellate system of WTO. China did not pursue a confrontational approach towards trading partners in early years of accession to WTO. This attitude changed since 2006 as China confronted United States seven times between 2006 and 2012 in WTO appellate body. China has been targeted for forty-two cases of trade disputes within the WTO as United States stands for majority of this cases. United States has in most cases claimed on unfair industrial policy from Chinese government in broad range of sectors such as semiconductors, intellectual property rights and renewable energy. China has protested against the unfair treatment of United States government in antidumping measures and countervailing duties which has damaged Chinese export of goods to United States. This historical background is proof of the broad disagreement between the two countries in various

trading sectors and the lack of WTO ability in resolving the trade disputes as an intergovernmental organization leading the countries taking unilateral actions against each other (Hur, 2018: 403-405).

The legal capacity of the WTO has created a ground for developing countries for better negotiation terms with developed countries. Within the dispute settlement system of WTO difference of power levels has no matter as legal grounds and arguments is of importance. The Chinese growing legal capacity within the WTO institutional and rule-based system could be explained in two different ways. One way is the socialization dynamics where China has gradually increased its influence within the WTO system by time. Another explanation is that China is using the legal framework of WTO both as a shield to protect Chinese internal market and as a sword to confront measures taken by other members in a way that hurts Chinese interests. This shield and sword dynamic is referred to as aggressive legalism and is not bound to Chinese actions but is adopted by other member states of WTO (Kim and Kim, 2019: 350-352).

2.5 Impacts of the US-China trade war

The impacts of the trade war between the United States and China are multidimensional, involving many countries globally. The political and economic dilemma facing other countries is whether to choose closer ties to the United States or China. Although China, as an economic powerful country creates incentives for trade and business for other countries, there is the dilemma of security and growing Chinese influence especially in Asia. Studies based on European and Asian democratic countries show a will toward stronger relationships with the United States, although keeping relationship will China is a priority. The war between Russia and Ukraine in 2022 played a role for European democracies as the close relationship between President Xi of China and President Putin of Russia has convinced European countries to strengthen the relationship with United States. The Chinese activities in the Taiwan Strait along with tensions between China and Taiwan, have convinced Asian countries to coordinate actions with the United States. What has worried both European and Asian countries is the unilateral approach of President Trump in the United States in international cooperation and withdrawal from international organizations. Biden administration has, though, cemented a multilateral approach towards American allies both in Europe and Asia (Grano, 2023: 11-15).

An economic impact of the trade war between the United States and China is trade diversion. Trade diversion changes trading partners of United States and China as both countries choose to replace trade from together to other countries. A natural effect of trade diversion means higher export levels for other countries in the world replacing the needs for imported goods in United States and China. Another effect of trade diversion is the change of trade flows between countries and a reorganization in value chains, which creates a loss of demand for specific imported goods. Studies in 2019, a year after imposing tariffs on Chinese goods shows the demand for goods in sectors such as machinery, transport equipment and motor vehicles increased in the United States following the drop in imports from China. Various countries have benefited from this trade diversion by increasing exports to the United States. Countries such as Vietnam, Mexico and Taiwan have all increased trade levels with United States. For example, Mexico saw an increase of 5 billion US dollars in export of motor vehicles and Taiwan increased its exports by 4.8 billion US dollars. For China this pattern is different since the levels of exports to United States are bigger than the imports. The trade diversion and growing export levelst from Asian countries to the United States have caused fewer imports from Asian countries to China. This has created more demand for another type of imported goods from the Chinese economy since fallen export levels have decreased the demand for intermediate goods and, thus, a change in value chains (Bekkers and Schroeter, 2020: 9-12).

Overall, the trade war between the United States and China could lead to a shutdown in trade between the two countries. While the casualty on the American economy is mostly in loss of welfare for United States citizens due to high tariffs on imports, the Chinese economy will see a high drop in GDP levels in some sectors of the economy. A severe impact of this trade war could be seen in the global supply chains where an abruption in current supply chains could affect firms globally. The global manufacturing industry dependent on supply from the United States and China is at the forefront of taking damage from this trade war. Moreover, this trade war could spill over on many other areas such as Foreign Direct Investment (FDI) or creating a new Cold war between the world's two major economies namely United States and China (Tu et al. 2020: 217-219).

2.6 Departure points from literature review

Important departure points are learned from the study of earlier literature on the trade war between the United States and China. The tension in bilateral relationships between the United States and China is growing in different areas. The vast growth of China's exports since its accession to the WTO is a major concern for the United States. The expansion of exports in China is contributing to the development of China's economy, and with the movement of production from other parts of the world, with the United States included, to China there is the fear of losing jobs and welfare in other countries. The growing trade deficit between the United States and China is considered as evidence of the expansion of trade and export for the Chinese part and the loss of exports and jobs for the United States.

There are underlying factors other than trade deficits contributing to the escalation of the trade war between the United States and China. There are concerns from the United States government about the undervaluation of the Chinese currency, renminbi by China's government. A weak currency makes Chinese goods cheaper outside of China. These concerns are related to the monetary policy of China. Another factor is related to China's industrial policy, where the United States is accusing China of using American technology without considering the intellectual property rights of using these technologies. Last, is the Chinese market policy, where Americans are accusing China of denying American firms access to Chinese markets. All these factors have created an environment of unfair competition in trade between United States and China.

United States is creating alliances in Asia and Europe against China with leadership provided from United States. Alliances have the potential of excluding third parties, and in this case China, from trade which is dangerous for the global supply chains of trade and the overall levels of trade. The resemblance of China as a threat to the national security of the United States makes cooperation a hard task to achieve between the two countries. Nationalistic policies and national security policies from China and United States are a threat to the multilateral trade order as unilateral actions are challenging free trade and multilateral decision making. Trade diversion is causing changes in trade flows because of the creation of alliances and trade wars by moving production chains to countries other than China. Movement of production to other countries

than China has benefits for these countries as trade surpluses grow in other parts of the world. The challenge for China is to find other markets for exports than the United States.

The role of WTO is essential in preventing the further escalation of the trade war between United States and China. The function of the dispute settlement mechanism of the WTO is under test as the WTO regulation on intellectual property rights and antidumping measures is questioned by both the United States and the Chinese government. The WTO, as an international organization, could play a part in solving trade disputes between the United States and China.

3. Theoretical framework: Theory of trade expectations

3.1 Foundations of the theory

The theory of trade expectation is used as framework for this study on analyzing ongoing trends and future expectations for the trade war between the United States and China. The theory of trade expectations has a dynamic approach and is not bound to past or current levels of trade between states. The theory of trade expectations recognizes global trade interdependence as a reality that could bring peace between states. However, it simultaneously acknowledges concerns among states for the levels of benefits each country could enjoy within this system. If state leaders have clarity on future trade levels and expectations of good levels of value in trade and investments, then peace is the better alternative. If, however, state expectations on trade levels are low and the possibility of access to the benefits of trade is diminished, then a trade war is an option for states (Copeland, 1996: 6-7).

The theory of trade expectations derives and recognizes both the liberal and realist approaches concerning the role of trade in international relations. The liberal approach has an emphasis on the benefits of trade for states and the need for cooperation among states. Liberals also tell that opportunity costs and technology play a role in shaping the relations among states, where the higher opportunity costs of waging wars compared to trading with another country make the alternative for peace and cooperation more desirable for states. Technology, in a liberal view, has an effect in driving up the opportunity cost of trade war and thus making trade more lucrative. Liberal thinker Richard Rosecrance divides states between those in favor of free trade and wealth creation and states that are obsessed with the expansion of territories through military power. Realists mean that states need to be in control, and interdependence creates a vulnerability in access to critical raw materials needed for the economy. John Mearsheimer labels the fear in states as a fear of blackmail when the need for critical raw material is at its highest, like in times of war or economic crises (Copeland, 1996: 8-10).

The role of expectations in the theory of future trade expectations requires the assessment of the trade security dilemma in the trading system between states. The trade security dilemma has roots in the realist theory approach. In a situation where economically dependent states through offensive actions are trying to secure access to raw materials or markets, a reaction from an

independent great power is inevitable. In such a situation, the dependent states have expectations of securing access to economic growth in the future, but the independent great power that provides markets or raw materials could cut the access by putting restrictions or creating alliances against the dependent state. The containment behavior by independent great powers could eventually create an evil spiral where the dependent state induces even more aggressive behavior to secure vital economic needs. The dilemma of expectation on both sides is a long-term commitment to free trade and access to markets and crucial materials for economic activity and non-use of military power for securing markets and materials. Expectations of dependent and independent states in the security of trade are critical for understanding both future trade engagements and start of trade wars (Copeland, 2014: 429-430).

3.2 The dilemma of interdependence

The notion of economic interdependence is prevalent in both liberal and realistic approaches as it works as a critical premise in the theory of trade expectation. For liberals, the notion of interdependence between states prevents them from engaging in war against one other. The level of dependency varies in liberal and realist approach. Liberals tell that since the cost of cutting ties in a dependent trade relationship between two states where one state is highly reliant on the other is high, this high cost is the reason for continuing trade and peace. Realists see this high cost of dependency as a reason for starting a war as one state tries to break this dependency and become non-reliant on the other. Another factor in dependency is examining how one state's economy trading with another state is based around accessing goods such as raw materials. The trade expectation theory focuses on bilateral trade relations between two states. This theory emphasizes that if a dependent state chooses to engage in trade with another state, calculations on benefits from trade and the potential loss from losing in trade because of trade conflicts need to be assessed. These calculations are based on future expectations from the trading countries' commitment to free trade and the mutual benefits of trade. In other words, if the risk of being dependent on another state is beneficial. A crucial factor here is the level of dependency on key raw materials such as oil for use in the industries (Copeland, 2014: 32-36).

Interdependence between states manifests in various form such as trade, capital and monetary interdependence. Each of these forms has specific effects on state behavior in a system where states have different types of preferences. For example, Montesquieu argued that the free

movement of capital, both within and between states, has the effect of reducing conflicts. But it is also clear that foreign capital and investments are prone to nationalization, creating the risk of conflict. In the case of monetary interdependence, a mutual monetary union could increase opportunity costs for member states by not obeying or leaving the union. Meanwhile, joining a union decreases the level of autonomy and influence on the national money that a state owns (Gartzke, Li and Boehmer: 2001: 395-397).

The high level of interdependence among great powers has implications for third parties that hold states with small or medium-sized economies. Great powers benefit from economies of scale through heavy industrialization and thus have an upper hand in relation to smaller economies. The great powers are dependent on crucial materials for their industries. Great powers could, through incentives such as FDI (Foreign Direct Investments) or access to markets, influence the smaller economies for cooperation. When the economic advantages of great powers are met by rivalries from other rising powers, putting them into a position of disadvantage, then militarized forcing is a choice that is accessible for a breakthrough. This situation could bring other rival great powers into the conflict and thus escalating the situation. This example could explain another dilemma of high economic interdependence that free trade brings, especially in cases which involves several great powers (Levy and Mulligan, 2023: 894-895).

3.3 Theory of trade expectations in practice

A practical example of the theory of trade expectations is the creation of PTAs (Preferential Trade Agreements). Reducing trade barriers to promote economic activities between states could lower the risk of conflicts and promote domestic forces in cooperation. Since the theory of trade expectations states that the volume of trade has no direct connection to future peace between states, PTAs could function as a positive force in guaranteeing future trade relations. This enhances the future prospect of cooperation within a PTA between member states. An example of this is the relationship between Germany, France and Britain prior to the First World War. High levels of trade flow at the period before the war did not prevent the happening of a global war. The critical factor was though the expectation from the Germans that they would become abandoned from trade with France and Britain hence a negative outlook on future trade relations. There was also no PTA between these great powers then (Peterson and Rudloff, 2015: 61-64).

Another practical example of the theory of trade expectations is when leaders consider the alternative of war, which is close to the realist approach. In this scenario war is attractive since the relative gain of war is higher than promoting trade between states. A state that could increase its economic size by waging war, even though not in a position of a great power, sees war as a better alternative than engaging in trade. Practical historical examples are seen in the first Gulf War in 1990 when Iraq invaded its neighbor Kuwait. By absorbing Kuwait's economy, the war would be seen as a better strategy for the Iraqi economy. In this historical example Iraq is a superior power in terms of country size, the military and economically hence the value of waging war was higher than the value of trade between Iraq and Kuwait (Copeland, 1996: 20-21).

The value of trade is an essential factor in explaining the theory of trade expectations. The value of trade between states is not bound by time. This means that present high levels of trade are not a sign for continuation of positive future trade relations ; on the contrary, low levels of trade value in present does not decide negative prospects for future trade relations. Here the period of relaxation known as détente in the relationship between United States and Soviet after 1985 where the value of trade was low but indications for higher value in trade due the need for technology from the Soviet side improved relationships between United States and Soviet (Copeland, 2014: 38).

3.4 Developing theoretical framework

There are shortcomings in both liberal and realistic views in explaining the relationships between interdependence and conflicts. Since the theory of trade expectations departures from both liberal and realistic view there is a need to understand the shortcoming of these theoretical approaches. The liberal approach departs from assumptions that economic cooperation will result in more cooperation and integration of states, while it does not address the connection between interdependence because of cooperation and conflicts that might arise from closer relationship between states. There could also be situations where states engage in conflict and cooperation at the same time, and liberalism cannot outline such a scenario. The realist view tends to neglect interdependence in preventing conflicts and wars. In the realist view, interdependence only creates more opportunities for conflicts between the cooperative states. In the realist view, a major concern for states is guarantees for security, which could generate

war or peace. Other concerns in realist view are the problem of inequality and conflict of interests because of interdependence between states. Realists fall short, however, since wars could always be a result of inequality or conflict of interests. Another failure of the realist approach is neglecting market powers in influencing the terms of trade in favor of states. A realist approach assumes that economic power will transcend to political power and that there is a direct link between economic power and military actions, which is not the case every time (McMillan, 1997: 39-42).

The future trade expectation theory delivers insight into the role of institutions between trading states and the role of the democratic peace argument in preventing crises and war between democracies. The role of international institutions within the future trade expectation theory is of a supportive role in providing better positive outlooks for leaders of state in policymaking for trade. Institutions do not have the function of preventing or acting as a necessity for peacemaking between states. In historical cases, peace and wars have started or ended with or without the existence of institutional arrangements. Institutions can ease top level meeting between leaders of states or mediate in arranging preferential trade agreements (PTAs). The future trade expectation theory does not believe that democracies are not at war with each other on the foundations of shared norms and values but rather because of tendencies in democracies for longer commitment to policies of free trade and open doors. Democracies could use protective measures such as tariffs or restriction of money flows on each other. However, these measures are temporary for lifting the state out of recession as the expectation for future is presuming engagement of free trade (Copeland, 2014: 433-435).

Since the theory of trade expectations is analyzing the behavior of states in the system of international relations, there is a need for better understanding of why states behave in a certain way. By studying the behavior of states at three different levels using the system founded by international relations scholar Kenneth Waltz a better understanding of behavior patterns is found. The first level is the system level, where the state is treated as a single unitary and rational actor with non-changeable preferences. What is then interesting is to study how states are constrained and how incentives arise for taking specific actions. This type of study at the system level is done by an outside-in approach, that is, the study of the state is done from the outside. The following two approaches are from inside-out, which enables researchers to look at domestic forces shaping the actions of the state. The unit level considers the relationship among domestic actors from within and outside government levels and the influence of these

actors on the state decision-making for foreign economic or political policies. The last approach is the cognitive level approach, which analyzes domestic actors' knowledge and cultural aspects that influence policymaking. This study is using an outside-in approach looking at the behavior of states from outside (Cohen, 1990: 268-269).

To properly assess the theoretical framework and operationalize the theoretical framework for empirical analysis, a table of indicators and property of indicators are summarized below. This table will be further operationalized in the methodological section of this study.

Table 1: Theoretical framework for indicators and property of indicators used in empirical analysis.

Indicator	Property of indicator
Liberal approach	Economic cooperation, interdependent economic ties, economic union
Realistic approach	Independent economy, high cost in interdependency, economic sovereignty
Future trade expectation	PTAs (economic cooperation) or trade war (economic independence): Determination of preferences based on future expectations of leaders in choosing above-mentioned alternatives

4. Methodological approach

4.1 Case study

This research is based on a qualitative single-case study approach. A case study approach is a research method for an in-depth study of single or multiple cases. The object or cases of study in case study research could be individuals, organizations or a general population. Due to the complexity of cases examined, case studies are suitable for conducting research because of their broad and in-depth approach. The researcher must choose the research questions carefully to make the research conductible within the frames of case study research (Heale and Twycross, 2018: 7).

After defining research questions for the case, the researcher needs to assess the chosen data as empirical material. In case studies, a broad type from different sources needs to be collected for the purpose of bringing in different sets of perspectives on the case. By using different data sources, the researcher uses a triangulation of data which broadens the understanding of the empirical data. Triangulation could bring complications when assessing the data since different perspectives create a challenge in differing right from wrong data (Hays, 2004: 228).

Case studies are not like other types of studies in social sciences in search for generalization in conclusions as an objective goal. When conducting case studies, the researcher is in close work with each case that is unique with its own causalities and explanations. One reason that could explain the lack of generalization in case studies is the conduction of experiments and repetition on a selected population which allows a generalizable answer on similar cases. In case study however, the researcher is in search for facts and truths on one entity that does not relate to other cases (Hays, 2004: 218-219).

From an epistemological view there are two types of case studies. Epistemologically there are exploratory and descriptive case studies. Exploratory case studies are used to develop new theories or hypotheses by studying cases or phenomena that resemble the features of a pilot study. Descriptive case studies do not generate new theories or models but use a developed theory as a reference for collecting data and performing analysis. The epistemology of this research has a descriptive approach in analyzing as it uses a developed theory (Scholz and Tietje, 2002: 11-12).

Different research methods are applied when conducting case studies. A researcher could choose different methods depending on the selection of cases, the number of cases and the applied theory. In the field of International Political Economy (IPE), which includes the case chosen for this research, namely the trade war between the United States and China, there is an approach that is the disciplined interpretative case study. The theory in this approach has a decisive role. Even though a disciplined interpretative case study does not test theories or budling one, the theory works as guidance for finding and interpreting other angles and truths about the case. Risks associated with interpretive case studies are the bias in interpretation and selectiveness when reconstructing events. Here, the researcher needs to show discipline and faithfulness when choosing theories and applying them in the right way to cases. That includes the explanation of the possibility for alternative interpretations other than the research conducted (Odell, 2001: 163-165).

4.2 Validation

Conducting a case study requires the attention of the researcher to ensure the validity of the research. There are two types of validation in research, namely internal and external validity. Internal validities are assessed when researchers explain and describe a particular case. Providing a clear line of arguments to show causal effects is necessary for dementing other factors involved in the case. External validation ensures that the conducted research is replicable and that the results are generalizable for other studies. To enhance the external validity, the researcher needs to show their arguments for choosing a particular case and explain the context of the chosen case (Quintão, Andrade and Almeida, 2020: 269-270).

Triangulation is also used to refer to the application of qualitative and quantitative methods in the same research. There are different views on the practicality of this methodological approach and whether qualitative and quantitative methods complement, converge or diverge when used in the same research design. Using statistics in qualitative research design could work as a complementary feature for finding and explaining trends and variations for the studied object or phenomenon. In the case of this research, the qualitative approach, in combination with quantitative instruments, works as a complement to each other. A presumption for this

complementary approach is to have a theoretical framework (Kelle and Erzberger, 2004: 174-176).

This research intends to use quantitative methods or descriptive statistics as a complementary method when analyzing data collected for the case study. By using this approach, a more robust analysis of the studied case or phenomena could be achieved.

4.3 Operationalization methods

This research has defined a theory as a point of departure for conducting an analysis of the collected data. By using the indicators and properties of indicators generated for the theory in this research, a practical way for the interpretation of data is defined. This research does not have the ambition of generating new theories or hypotheses about the case of the trade war between United states and China. This research aims is to grasp a deeper understanding of the reasons behind this trade conflict and the impacts on global trade. This research intends to learn from past research on the subject while describing and interpreting the evidence on the case. The theory of this research works as guidance for evaluating the empirical material. The conclusions would not be generalizable on other similar cases, but they will reflect on ongoing trends and changes in global trade dynamics. The table below shows the operationalization of methods in this study.

Table 2 – Operationalization of the method

Indicator	Property of indicator	Measures (qual / quant)	Data source
Liberal approach	Economic cooperation interdependent economic ties economic union	Qualitative and Quantitative	WTO, IMF, Government statements and statistics
Realistic approach	Independent economy high cost in interdependency economic sovereignty	Qualitative and Quantitative	Government statements and statistics, National security policies of US and China
Future trade expectation	PTAs (economic cooperation) or trade war (economic independence): Determination of preferences based on future expectations of leaders in choosing above mentioned alternatives	Qualitative and Quantitative	PTAs between US and China, Statements from government and leaders of US and China, Statistics on tariff levels and trade deficits

To have a better assessment for the qualitative data, this research intends to use process tracing as a method of analyzing the collected data. Process tracing as a tool empowers researchers to find causal mechanisms when trying to answer research questions. Process tracing effectively describes events in series of sequences which gives a clear picture of the events over time. Since this research is answering questions regarding "why" or "causes" of the trade war between United States China and "what" trends are developing regarding the global trade, process tracing is a useful tool for answering the research questions (Collier, 2011: 823-825).

4.4 Source critic

When collecting the data, the researcher needs to be aware of primary and secondary data sources. Primary data is the data collected by the researcher himself in the field and has the advantage of better adaptation to the research questions and theoretical approach of the researcher. Primary data are also costly and take time to collect. Secondary data consists of data collected by other researchers or organizations through statistics or documents. Secondary data usually comes in large samples and is a useful source of data. The researcher needs to evaluate secondary data's usefulness, and retrieving this type of data could sometimes be difficult (Hox and Boeije, 2005: 593-596). This research does not produce primary data by conducting experiments or interviews in the field. This research will use existing data like statistics or official documents by governments, international organizations and information from digital newspapers.

When working with data the researcher needs to be aware of the data's quality. If researcher decides on using data by other researchers or organizations following qualities of data collection are important. The way that these data has been collected, the purpose of the data collection and biases behind the data collection are all elements of quality that are essential. The researcher needs to be aware of the limitations of the gathered data. If these data limitations create a dilemma in changing research questions, then the researcher needs to consider the choice of data (Hox and Boije, 2005: 597-598).

Limitations of this research are primarily concerned with the access and trustworthiness of collected data. Data access are limited from both United states and Chinese governments as

some accessibility to data are related to national security. There could also be data that are produced for serving political ends and thus make the data produced with bias. Data with bias would be found in newspapers and webpages of news organizations; therefore, as a researcher, awareness of these facts is a priority. Language is another dilemma facing data collection from the Chinese government and organizations as most data from these sources are in Chinese language. Therefore, collecting data from international organizations like the International Monetary Fund (IMF) and the World Trade Organization (WTO) is prioritized since these organizations review and collect data from governments and the sole language from these organizations are English.

4.5 Ethical considerations

Following a set of norms or codees of ethics is necessary when conducting research in every scientific field. There are moral aspects of these ethical considerations, but there are also legal aspects when conducting scientific research. Examples of moral aspects in research are the voluntary participation of the candidates who take part in research and the willingness of these candidates to share personal data. There is also the question of the anonymity of the participants. Legal aspects are those which are incorporated in the law of each country, and deviating from these norms will bring punitive measures. An example of this is the informed consent of participants in sharing personal information (Hopf, 2004: 334-335).

The framework for ethics in social sciences has derived from frameworks set up in the medical sciences. Social scientists view social sciences' ethical considerations as less complicated than medical sciences. However, regulations for ethical considerations are growing in the form of review committees in many countries. There are concerns among social scientists, specially scientists in the field of ethnographics, that these committees are posing a threat to the quality of research. Nevertheless, these committees' works are needed to prove that ethical guidelines are followed when conducting research (Wiles, 2013: 10-11).

This research is taking every ethical consideration into practice. This research is not conducting interviews or surveys as a research method. However, ethical considerations are followed in collection of data and using the work of other researchers and writers for earlier literature. This research believes that following ethical aspects enhances the validation and robustness of any

research, and from both moral and legal perspectives, it is necessary to follow an ethical code of conduct.

5. Empirical analysis

5.1 Introduction

In this part of the research, a deeper analysis on the empirical evidence of the trade war between the United States and China is carried out to answer the research questions. The time for this analysis is set from March 2018, which marks the implementation of punitive tariff measures on Chinese goods by the United States, until today, the year 2024. However, events before March 2018 might relate to the aim of this research in understanding why United States and China have engaged in a trade war. The role of international organizations the trade war between the United States and China is another subject of this analysis. International organizations like the WTO and the IMF are valuable in facilitating trade levels between countries through regulations and monetary policies. The emphasis of this empirical analysis is set to find alternative explanations on causes of the trade war between United States and China. However, this analysis acknowledges the role of tariffs as a main punitive action in a trade war.

This analysis will assess the impacts of this trade war on global trade to understand the effects of this trade war on the flows of global trade. Statistical indicators used in this research for assessing impact levels are the centrality of China and United States for trade, trade diversions between trade partners of the United States and China since the outbreak of the trade war and impact of tariff levels between United States and China. Finding the trends in changing trade practices by trade partners of the United States and China is another indicator that shows the impacts of the trade war between United States and China. This research finds these indicators important for understanding the changes in trends and dynamics of global trade caused by the trade war between United States and China.

5.2 Realistic approach: Independent economy, high cost in interdependence, economic sovereignty

Independent economy

In a statement from the White House diplomatic room in March 2018, President Trump announced actions against what the White House calls China's economic aggression. President Trump's speech focused on the United States trade deficit with the world, a sum of 800-billion

US dollar. According to President Trump, with China, the deficit stands at 500-billion US dollars. President Trump mentions the loss of jobs for American workers since factories left America for China and how higher tariffs will encourage these companies to move back to America. President Trump uses the phrase Section 301 trade action to describe the actions of the United States on China. President Trump attacked WTO by condemning the arbitration of the organization as being against the interests of the United States (Trump White house, 2018).

The Section 301 trade action empowers the United States government to act against any foreign trade practice viewed as harmful to the United States. The Section 301 trade action functions primarily within the framework of dispute settlement body at WTO. However, the Trump administration changed this policy by unilaterally invoking measures against China as the Trump administration viewed the framework of WTO as a failure. The Section 301 trade action empowers the United States Trade Representative (USTR) office to enter or withdraw from binding trade agreements with foreign powers while imposing retaliatory actions such as import duties or trade restrictions (Congressional Research Service, 2024).

In respond to President Trump planned tariff measures on Chinese goods, the Chinese foreign ministry called on the act by the United States to be serving unilateral and protectionist purposes that do not lie in Chinese interests (Embassy of the People's Republic of China in the Kingdom of Sweden, 2018).

In retaliation for the imposed tariffs by United States government, Chinese officials started a series of tariffs on American goods worth up to 16 billion US dollars with an average tariff level of 25 percent. The defending of Chinese interests against American tariffs came by hitting a broad range of American goods such as cars, motorcycles and energy industries such as coal. These actions marked a series of tit for tat tactics by both United States and China in imposing tariff punitive measures against one another (Imbert, 2018).

Table 3: The table below shows the volume of trade in goods between the United States and China for the years 2018-2023 (United States Census Bureau, 2024).

Table 3: U.S. trade in goods with China (2018-2023)

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. Table reflects only those months for which there was trade.

Month	Exports	Imports	Balance	%Change
January 2018 January 2021 January 2023	9,909.5 13,009.8 13,092.6	45,681.3 38,837.4 38,252,9	-35,771.9 -25,827.7 -25,160.3	 -27.8% -2.6%
February 2018 February 2021 February 2023	9,743.1 9,264.6 11,618.6	38,956.2 33,824.6 30,620.6	-29,213.1 -24,560.0 -19,002.0	 -16% -22,6
March 2018 March 2021 March 2023	12,653.0 12,811.1 14,181.1	38,273.8 39,943.4 30,789.7	-25,620.8 -27,132.4 -16,608.6	 +5.9% -38.8%
April 2018 April 2021 April 2023	10,509.6 11,928.4 12,794.4	38,227.8 37,374.3 33,077.3	-27,718.2 -25,446.0 -20,283.0	 -8,2% -20,3%
May 2018 May 2021 May 2023	10,397.8 12,406.3 10,679.2	43,866.6 38,495.0 35,890.6	-33,468.8 -26,088.7 -25,211.5	 -22% -3.4%
June 2018 June 2021 June 2023	10,152.0 12,141.2 10,659.5	44,524.0 39,785.8 34,334.1	-33,668.3 -27,644.6 -25,440.0	 -17.9% -8%
July 2018 July 2021 July 2023	10,152.0 11,757.2 10,659.5	47,009.8 40,287.0 36,099.5	-36,857.8 -28,529.8 -25,440.0	 -22.6% -10.8%
August 2018 August 2021 August 2023	9,278.1 11,244.7 10,765.3	47,796.2 42,868.0 36,724.7	-38,518.1 -31,623.3 -25,959.4	 -18% -18%
September 2018 September 2021 September 2023	9,733.1 11,019.8 11,834.6	49,938.0 47,334.3 40,282.0	-40,204.9 -36,314.6 -28,447.4	 -9.7% -21.7%
October 2018 October 2021 October 2023	9,188.7 16,651.8 16,046.5	52,081.1 47,909.5 41,570.7	-42,892.4 -31,257.8 -25,524.2	 -27.2% -19.1%
November 2018 November 2021 November 2023	8,650.5 15,884.5 13,903.9	46,344.6 48,222.2 35,494.9	-37,694.1 -32,337.7 -21,591.1	 -14.2% -33.2%

December 2018	9,210.2	45,814.9	-36,604.6	
December 2021	13,312.7	49,404.5	-36,091.8	-1.4%
December 2023	12,006.9	34,092.1	-22,085.2	-38.8%
TOTAL 2018	**120,281.2**	**538,514.2**	**-418,232.9**	
TOTAL 2021	**151,431.9**	**504,286.2**	**-352,854.3**	**-15.7%**
TOTAL 2023	**147,805.6**	**427,229.2**	**-279,423.6**	**-20.8%**

Source: United States Census Bureau, 2024

Note: The data in table 3 compares trade of goods between the United States and China in three years of 2018, 2021, and 2023. There are reasons on why choosing these three specific years. The year of 2018 is the marking start of United States tariffs on China by President Trump. The year of 2021 marks a year after the signing of the Phase One trade deal in 2020. Lastly the year 2023 shows latest numbers on trade levels during President Biden administration. By reviewing the numbers trade deficit levels in goods have fallen by 15.7 percent between the years 2018 and 2021 despite the signing of the Phase One trade deal. Trade deficit levels in goods have fallen by 20.8 percent between 2021 and 2023 during President Biden's administration. Reviewing the monthly numbers tells that fallen levels of imports from China are the primary driver of falling trade deficit levels in goods between the United States and China despite the growing numbers of exports from the United States to China over time from 2018 to 2023.

Economic Sovereignty

The change of administration in the United States in 2022 and the arrival of President Biden did not change the bilateral relations between United States and China. In the National Security Strategy of President Biden in 2022 a particular emphasize on competing out China economically is expressed. The Biden administration views China as a threat to the international order created by the United States in which China is trying to become the leading economic and military power. According to the National Security Strategy of United States, China benefits from the economic order created by the United States and the open market economy while not giving access to other countries for Chinese markets (The White House, 2022a: 23).

China has in their National Defense Policy in the New Era emphasized on Chinese sovereignty and integrity. Safeguarding Chinese interests in land and sea are critical elements in Chinese National Defense policy, and most of these interests are concerned with the issue of the

independence of Taiwan. Although Chinese leaders are pledging not seek hegemony or expansion of the country's national boundaries, the unification of Taiwan to the Chinese mainland is an inseparable part of Chinese defense doctrine. China favors building partnerships rather than forming alliances and stands against joining military blocs. The National Defense Policy of China does not mention the role of the of United States in bilateral relations and the economic and military disputes between the two countries (Ministry of National Defense of People's Republic of China, 2024).

President Biden signed the Chips and Science Act in 2022 to bring manufacturing jobs back home to the United States while preventing investments in Chinese high technological sector and building of facilities for manufacturing in China. In the Chips and Science Act, the American government is committed to investing in research and development by providing 52.7 billion US dollars in investments to the semiconductor industry. The American plan is through Chips and Science Act to bring the supply chains of production in sensitive industries related to the military, such as semiconductors, computer chips and nanotechnology back to the United States and lower the dependency on foreign countries, specifically China (The White House, 2022b).

High cost in interdependence

President Biden emphasized on the unfair trade practices of China in a meeting between the leaders of China (Xi Jinping) and United States (President Biden) in 2023. This meeting took place in the state of California. President Biden underscored American concerns about Chinese punitive behavior against American companies working in China. President Biden reminded its Chinese counterpart on the commitments from America to its Asian allies and the defending of mutual values between United States and its allies (The White House, 2023).

In a press conference following President Xi and President Biden's meeting, Wang Yi, the foreign minister of China, answered questions on the meeting between the leaders in California and the bilateral relations between China and the United States. Yi pointed out that President Xi has made the Chinese position clear on issues related to trade and technology to its American counterpart. China will not tolerate any attempts by the United States, such as unilateral sanctions and discriminatory behavior, such as tariffs, to curb Chinese economic development (Ministry of Foreign Affairs of People's Republic of China, 2023).

The meeting in California between the United States and China leaders did not deliver any new agreement on the trade war between the two countries. In this meeting President Biden and President Xi agreed on three areas of artificial intelligence (AI), establishment of high-level military contacts and resuming climate change initiatives. From the American point of view, free and open access to waterways for the free flow of trade in the Indo-Pacific region and from the Chinese part, continued investments from the United States in China became important economic topics of discussion. The American government stressed the importance of national security concerns in imposing restrictions on the Chinese economy without the intension of decoupling the American economy from China. From the Chinese point of view, trade with the United States is of great importance, but creating new economic links with other countries to decrease dependency on the United States is a priority. The Chinese approach to decreasing dependency is obvious in industries with high-technology products where the United States is creating restrictions on China (Huang, Kardon and Sheehan, 2023).

In May 2024 under the Biden administration the United States implemented tariffs on a broad range of goods such as steel, electric vehicles, solar cells and semiconductors. The Biden administration emphasized the role of investment in products made in America, to create sustainable American jobs, to confront unfair trade practices from China and bringing chains of production back to America as main arguments for imposing tariffs on Chinese products. The emphasize on production made in America is important as it marks United States move to decreasing interdependency with China. Some of the tariffs are planned to implement in later time due to the need for adaptation by American firms such as tariffs on semiconductor industry in 2025. The highest rates of tariffs are scheduled for electric vehicles goods imported from China with a tariff rate of 100% (White House, 2024).

The Chinese ministry of commerce condemned the unilateral actions taken by United States and Biden administration in implementing punitive tariffs on products such as steel and electric vehicles. The government of China is seeing these tariffs as a violation to the rulings of WTO and pledged taking actions through the WTO against United States. Chinese government is viewing the actions of United States motivated politically rather than economically (Xinhua, 2024).

5.3 Liberal approach: Economic cooperation, interdependent economic ties, economic union

Economic union and interdependency

A trade agreement was reached between the United States and China in January 2020 named the US-China Phase One trade deal. This trade deal marks a temporary stop in addition to punitive tariff measures from the United States and China. Phase One trade deal was signed between the Trump administration in the United States and Liu He vice premier of the People's Republic of China. Phase One included a broad range of agreements in many areas, which were viewed by both sides as mutually beneficial. China pledged to improve regulations on intellectual property rights and theft of corporate secrets, while regulations from the United States are seen as satisfactory by both governments in the Phase One document. The most important part of the agreement for the United States is the commitment from China to buy agricultural commodities produced in the United States worth 40-billion US dollars over a two-year period, which will increase the value of exports to China and decrease the trade deficit. Phase One included some agreements on financial openness from both the United States and China in areas such as the manipulation of national currencies, although both countries acknowledged the prominence of national security in these areas (Goodman et al., 2020).

Under the Phase One trade deal, the Chinese government committed to expanding trade by increasing imports from the United States. Added exports from the United States to China would cause a reduction in the trade deficit between the countries, as previously pointed out by the Trump administration as problematic for the relations of the countries. The added exports from the United States in Phase One had an estimated 200 billion US dollars value over two years The exports covered a broad range of goods and services in manufacturing, energy, agriculture, and services (United States Trade Representative, 2020: 6.1-6.3).

Tracing the results from the Phase One deal between the United States and China, there are different conclusions. The phase one trade deal dampened the spiraling effects of retaliatory tariffs from both sides on each other. The commitment from China to improve exports from the United States was fulfilled up to a certain point but has yet to reach the 200-billion US dollar added exports as stated in the agreement. Two major factors contributed to China not following the Phase One deal as agreed. The Covid-19 pandemic and the economic recession following

up after pandemic were the explanatory factors. China improved its commitment in other areas pledged in the phase one trade deal. Intellectual property rights, opening financial markets to United States companies, and easing farm exports from the United States were all areas of trade disputes that improved with the Phase One trade agreement (Bown, 2022).

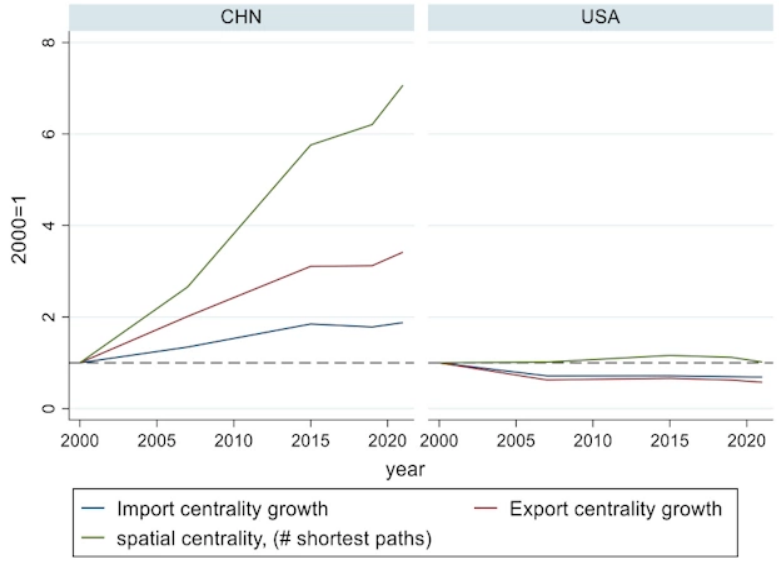
Economic cooperation

Policies aiming at increasing security and minimizing risks have the effect of increasing economic costs and lowering cooperation among states as an attempt to decrease dependency from a liberal point of view. International organizations like the WTO advocate policies in support of free trade and multilateral cooperation. WTO means that free trade opens the possibility for countries to diversify their sources of supply and not be dependent on one supplier, hence lowering costs for the economy. The rising incomes of countries engaging in free and open trade have the potential of increasing investments in security measures by countries. In other words, engaging in trade can increase countries' security. Trade can, through the role of mutual global value chains, reduce the risks of conflicts between countries. Global value chains of production increase the interdependent economic ties between countries, thus making the risks of conflicts low due to the high costs of disentanglement between the countries (World Trade Organization, 2023: 51-54).

Regarding the role of the WTO in settling disputes among members engaging in trade, several complaints were made by the Chinese government about the tariffs imposed by the United States government on Chinese goods. The WTO panel resolving disputes among members found the tariffs imposed by the government of the United States on Chinese goods inconsistent with free trade practices. Originally, the tariffs imposed by the United States in 2018 were based on unfair practices from the Chinese government in areas such as intellectual property and technology transfer. The rulings of the WTO panel concluded in the dispute settlement report of DS543 on September 2020, and this panel of WTO found the explanations to be inconsistent from the United States government in raising tariff levels on Chinese goods (World Trade Organization, 2020).

The World Bank (WB), another international organization, has lifted the importance of free trade in reducing poverty and increasing welfare globally. This institution (WB) has emphasized the central role of China in global trade despite the adverse effects of the trade war

with the United States. The World Bank noticed an increase in exports from other trading partners of the United States and China because of the trade war. The effect of this gap-filling of imports by United States and China has been named as a bystander effect by the World Bank (World Bank (WB), 2023).



Source: World Bank, 2023

Figure 1: The figure above illustrates China's growing centrality for global trade compared to the United States. As the figure shows, the Chinese centrality for global trade has increased significantly between 2000 and 2020 in three aspects of import centrality growth, spatial centrality and export centrality growth compared to the United States. This makes economic cooperation between United States and China important since the growing centrality of China makes cooperation between the two countries necessary (World Bank, 2023).

Fragmentation, decoupling and deglobalization caused by trade tensions globally would have negative consequences for the global world economy, with an estimation of losing over 5 percent of GDP for countries overall. The process of deglobalization would benefit some economies, but overall, most economies of the world would lose. Raising tariffs between countries would disrupt the labor markets as it has been in the trade war between the United States and China. While some sectors and regions would benefit from the rise in tariffs and reallocation of jobs, other sectors hit by tariffs would see an increase in unemployment as the costs of imported goods rises. This has been seen in China as night light intensity decreased in

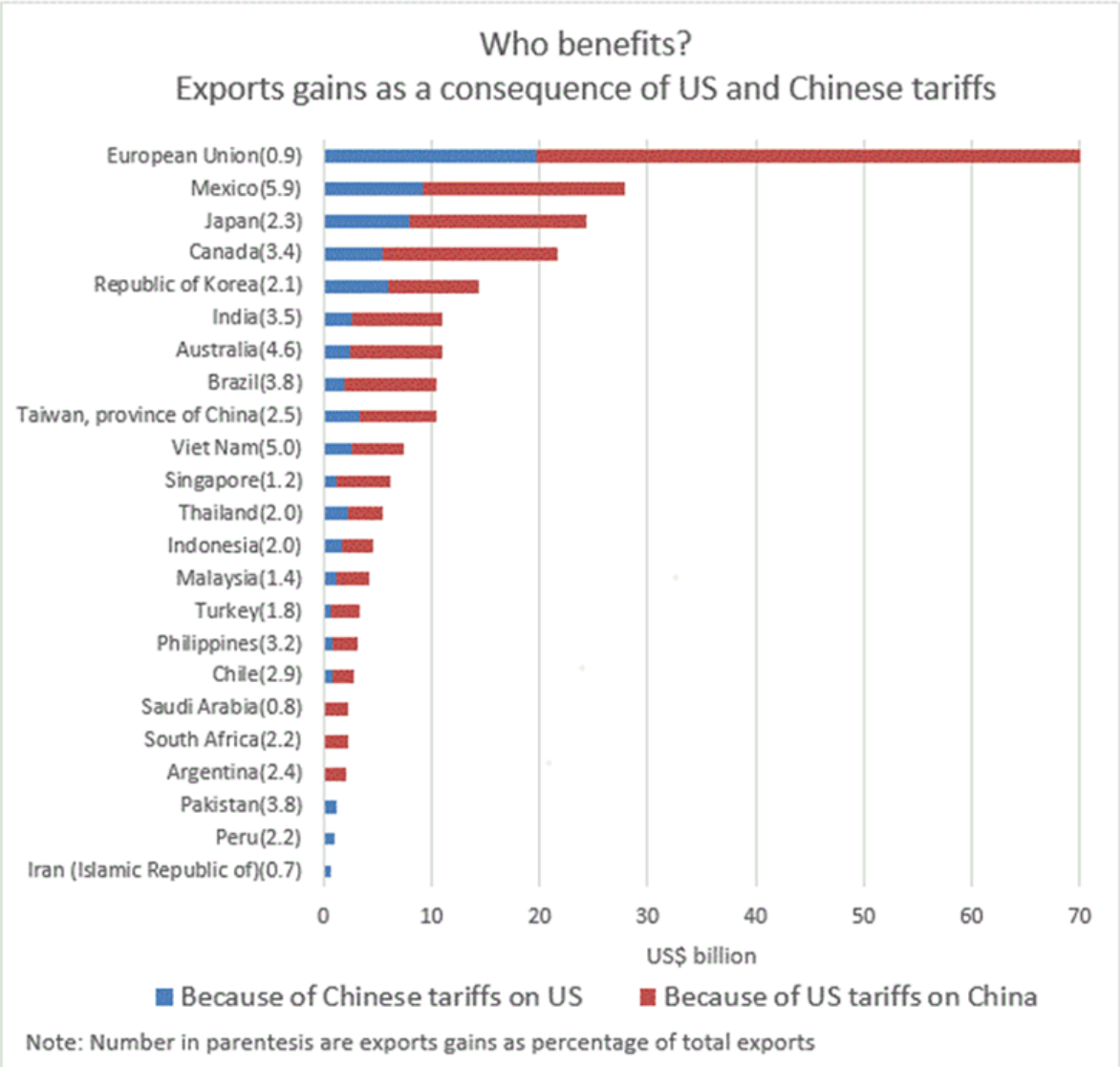
some areas of the country hit by United States tariffs which shows a lower in activity for night shift industries of that area. The exposure of export-led sectors in economies is higher by increases in tariffs. Global supply chain disruptions and lower investments caused by fragmentation and decoupling increase poverty through unemployment. The same impacts could be observed in import-related sectors of economies as higher prices for imported goods disrupt the access for families within countries creating a decrease in the welfare of countries (World Trade Organization, 2023: 68-71).

5.4 Impacts of the trade war on global economy

The International Monetary Fund (IMF) has warned against the negative effects of trade tensions between the United States and China. In a report for the world economic outlook in 2023, many arguments for this negative prospect for the global economy have been made. Particular notions are on the reallocation of production globally. The United States is encouraging American firms to reallocate production to countries with lower geopolitical tensions. China is encouraging local companies to replace foreign technology with local ones to lower their dependency on foreign countries. Moving production to friendly-minded allies by countries such as United States and China is branded as reshoring or friend-shoring. The effect of these changing patterns of global supply chains could have an opposite effect on the local economies. As the United States and China are trying to protect domestic economies by friend-shoring actions, the decrease in diversification of the economy creates a vulnerability to the economies of both the United States and China (International Monetary Fund, 2023: 92).

In the assessment carried out by the United Nations Conference on Trade and Development (UNCTAD) the impacts of the trade war between United States and China will not protect domestic production. Rather the access to markets for exports and imports will become more complicated. Domestic firms in both the United States and China will source out to production in other companies in different countries in search of exports and imports. The use of tariffs as a policy instrument will however limit imports from targeted countries because of the burden of higher costs in imports. In this assessment from UNCTAD of the announced 250 billion US dollar tariff on Chinese goods in 2018, an average of 82% will be diverted to firms in other countries, predominantly in the European Union. The dominance of firms in the European Union in the takeover is also true with regard to the 85 billions US dollar tariffs announced by

China on American exports. The diversion of trade is one of the realities in the trade war, while another implication is the uncertainty in investment making for firms created by the trade war. An example is Brazilian soybean producers benefiting from the trade war in replacing American soybean exports to China. Brazilian soybean firms were uncertain in their investment decisions due to the unclear future of the trade war that had been created in 2018. The rise in the price of soybeans in Chinese markets creates higher profits while the return of American firms to Chinese markets could take out the Brazilian soybean producers' competitive edge (UNCTAD, 2019).



Source: UNCTAD, 2019

Figure 2: Figure above shows gains of trade in exports by other countries as a result of the trade war between the United States and China. As the figure shows European Union, Mexico and

Japan are the main beneficiaries in terms of export gains because of the imposed tariffs between United States and China (UNCTAD, 2019)

Another impact of the trade war between the United States and China is the probability of interstate conflicts because of the geopolitical confrontation between both countries. This confrontation could drag other countries into the conflict between United States and China. Using trade as an economic weapon between the United States and China could have a spillover effect in other areas, such as using targeted sanctions or excluding measures such as visa bans. An atmosphere of mistrust between the United States and China brings a movement towards self-dependency and alignment towards only friendly-minded states. Protectionist policies such as using subsidies for national industries and regulation of investments from foreign countries is other measures that could arise as an impact of the trade war. The growing role of governments in the national economies is another trend following geopolitical confrontations between states. Examples of this growing role are direct control of governments over imports and exports, control over national citizens working with or in foreign firms, and exclusion of foreign companies working within national markets (World Economic Forum, 2023: 19-20).

There are different outlooks on the impacts of the trade war between the United States and China on the global economy. In short- and medium-term outlooks, different impacts like diversion of trade and the uncertainty of investment making by companies have been discussed in earlier sections of this study. One could also mention the coronavirus outbreak's impact on worsening the trade war between United States and China. In the city of Wuhan, ground zero for the virus outbreak, a large car parts industry was severely affected, which led Western companies like Volkswagen to leave production in China. In long-term outlook, the trade war could create two separate blocs or spheres of influence where the United States and China will dominate both in terms of governance and technology, with other countries adhering to one of these blocs of power. This scenario could lead to the decoupling of the economies of United States and China. In the long term, if companies were to reallocate production to one of the blocs of the United States or China, there will always be the question of the capacities of each bloc to maintain enough production levels. Reallocating production to other countries requires considering the levels of infrastructure, human capital, regulations, and laws of the new country (Colback, Financial Times, 2020).

5.5 Future trade expectation

This part of the study analyses the empirical material and findings of the study using the theoretical framework. The official government statements show an ongoing economic competition besides the trade war between both the United States and China. The approach from the United States to the trade war is a combination of both realistic and liberal actions. Realistic action by the American government is to lower dependence on the Chinese economy using measures such as tariffs and importation of goods from countries other than China. A more liberal approach is working through channels such as direct communication by the leaders to settle trade disputes between the two countries or solving disputes through the WTO in which United States is not using. The Chinese approach is working like the American in using measures such as retaliatory tariffs to protect its economy. Meanwhile China is using the dispute settlement body of international organizations such as the WTO. Chinese and American governments are engaging in bilateral trade deals such as Phase One signed under the Trump administration. Trade deals such as Phase One have the effect of improving future outlook of trade levels and could lower the prospects of trade wars between the United States and China. There are, however, questions about a follow-up agreement on Phase One trade deal as no indications of further trade deals between the United States and China could be found under the Biden administration.

The role of the relationship between the leaders in both the United States and China plays a part in resolving the issues of the trade war. The dynamics of future trade expectations suggests that leaders in both Washington and Beijing need to feel that accessing the benefits of trade is available and sustainable for the future. It will only be after guaranteeing the positive prospects of future trade between the two countries that the trade war will resolve. Here, security concerns from both the United States and China are vital. These concerns from both leaders in accessing material and technology for the industries and welfare need to be address.

Since this study has an outside-in view on the relations of United States and China, the dynamics of internal power structures, domestic actors' role in shaping foreign policies and cultural aspects of the trade war are not properly assed. The outside-in view is only taking the actions of the governments of United States and China towards each other into consideration. The role of institutions like the WTO are minimal in preventing trade war and conflicts by future trade

expectation framework. This could be compared to the liberal approach where the role of institutions is important in balancing state relations.

The National Security policies of both the United States and China are playing a significant role in the trade war between the two states by justifying the actions taken between the two states. Both the United States and China support a competitive outlook on bilateral relations; however, the United States views China as a threat to the international economic order. The national security policies of both United States and China are in conflict with the dispute settlement mechanisms of international organizations such as the WTO in resolving trade disputes. Here, this study finds the contradictions between the realist approach which prioritizes the national security policies of states and the right of self-sovereignty while the liberal approach emphasizes cooperation within international organizations such as the WTO. The future trade expectation theory recognizes both concerns within the realist and liberal approaches, but the key question is whether the leaders in both the United States and China find value in trade for the future between the two states.

5.6 Discussion

Earlier literature on why the United States and China are engaging in a trade war has explained the balancing of trade deficit between the two countries as main reason. Evidence of the empirical material in this study supports the explanation of trade deficit. There are, however, the role of technology and intellectual property rights to mention. United States, as an advanced economy, has great concerns about the transfer of technology to China and the dependency of the United States on China in the technological area. Free access to markets for exports is another important factor to both United States and China. Markets for exports create more chances of jobs in both the United States and China as the production of goods increases. The future expectation of free access to markets creates more incentives for investments in growing production. United States is, however, concerned with chains of production as the government is trying to move parts of the production chains back to the United States.

Regarding trade deficit levels between the United States and China, as shown in Table 3 of this study, trade deficits are decreasing in favor of the United States as exports has increased to and imports decreased from China between 2018 and 2023. This fallen trade deficit level is a sign

of a shift and change in the interconnectedness between the American and Chinese economies in trading goods. While exports have risen from the United States to China imports has fallen at a higher pace from China by comparing the numbers between 2018 and 2023. Trade deficit levels, which currently are negative for the United States and positive for China, are a concern for leaders in both the United States and China. As the leaders in the United States are concerned with high levels of imports from China, accessing markets for imports is vital for leaders in China. Finding the right balance of trade deficit levels is vital for continuing trading goods between the United States and China. Here, both countries need to level the playing field and enhance the terms of trade for the firms working in American and Chinese markets.

Another explanation in why United States and China are confronting each other in trade, is gaining an advantage in the field of high technological industries. The concern from the American part is more vital when it comes to technological concerns as the American economy is a developed economy while China is a developing economy. The role of technology is important different parts of the economy as well as the military. As mentioned earlier security concerns plays a great part in the American Chinese trade war therefore strong military capability with access to latest technology is vital.

The trade war between United States and China is not a pure economic trade war with only economic motivation as political motivation is also playing a part. Achieving both political and economic ends in the trade war is clear from both United States and China. Creating alliances against China is evidence of political motivation from United States. Forming spheres of economic influence by China is boosted by political motivation while trying to achieve economic ends. In sum the trade war between United States and China has both political and economic ambitions.

The impacts of the trade war between the United States and China on the global economy are significantly negative, as international organizations such as the IMF and World Bank have pointed out in this study. Expectations on further tensions in the form of a trade war between the United States and China slows down the global economy as investments drop. The creation of two power blocs between the United States and China and alliances in between will lead to a decoupling of the economies instead of further globalization and interconnectedness between states globally. Here, the liberal approach warns for future wars as cooperation and integration between states decreases.

Trade diversion caused by the trade war between the United States and China is disrupting the global value chains of production. This study has shown that many countries are beneficiaries of this trade diversion as global chains of export and import are changing. The uncertainty caused by the trade war results in firms moving chains of production, thus diverting the trade. The dilemma of this change and diversion of trade is whether these changes are helping producers and customers globally. Trade diversion could increase or decrease production costs depending on where countries and firms are reallocating the trade.

This study highlights the expectations of leaders in both the United States and China as the crucial premise for resolving the trade war between the United States and China. International actors like the WTO have failed to solve the trade war as punitive measures have escalated between the United States and China. If the expectation for trade and access to trading markets is bright in both the United States and China, then the willingness to reach future trade agreements will appear in leaders of both countries.

6. Conclusion

This paper has provided an in-depth study of the bilateral trade relationship between the United States and China. The aim of this study is to understand the impacts of this trade war on the global economy and the leading causes of the trade war between United States and China. The conclusion of this study is based on several points and is separated by causes and impacts as shown below:

Causes:

i) The causes of the trade war between the United States and China are not bound only to the issue of trade deficits as the main arguments for starting of the trade war by the Trump administration in the United States.

ii) The trade war between the United States and China is in several areas of trade, such as goods, intellectual property, market access, currency devaluation, and high technological industries such as the semiconductor industry.

iii) There is a vital security motive behind the trade war as both United States and China's governments are justifying punitive actions based on national security concerns.

iv) The trade war between the United States and China is not bound to specific administration in both countries as the change of administration in the United States has not changed the trade policies towards China.

Impacts:

i) The trade war is challenging the multilateral trade order as imposing tariffs by both the United States and China are causing a disturbance in the multilateral trade order ruled by international organizations such as the WTO.

ii) Trade war is creating a trade diversion in the global trade system. This trade diversion changes the patterns of trade between countries, as some countries benefit while others suffer from trade diversion.

iii) The creation of alliances and trading blocs is an impact of the trade war. This would slow down the interdependence of world economies and increase the probability of conflicts between trading blocks. Friend-shoring or trading with like-minded

countries is another impact of the trade war as some countries will become excluded from trade.

iv) The risk of confrontation and war is another impact of the trade war between the United States and China. As the geopolitical tensions rise with the trade war, so are the risks of engaging in an open conflict.

Based on the theoretical framework and empirical findings of this study, there are some trends to be followed in the trade war between the United States and China. The growing competition and hostile actions between the two countries do not have the potential to be solved by dispute settlement mechanisms of international organizations such as the WTO. The outlook of the relations between the United States and China and the future trade needs to be addressed by the leaders of each country. The prospects of increasing interdependency or decoupling is decided by the expectations of leaders. As the evidence of this study shows, the Phase One trade agreement between United States and China is an excellent example of creating mutual trust and positive prospects in trade relations. Nevertheless, there is a need for better mechanisms for following the content of the agreements in the future.

This study understands the possibility of studying the trade war between United States and China in different ways. This paper suggestion for other researchers is to study this trade war through the theoretical framework of hegemonic stability theory to understand China's growing role in the international relations system. There is also the potential to address the issue of Taiwan in the relationship between United States and China. Addressing the issue of Taiwan would bring the military aspect between United States and China in picture for future research.

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