

Understand the reality of trade wars between the United States and China

Rizky Bintang Setiawan¹ and Mustafa
Yogyakarta State University, Indonesia

Abstract --- This paper explores the US and Chinese trade war. We focus on the reality on the background of the war and compare with past trade. The US suggests that they are a victim of exploitation by China, even though US are a world economic power. However, US argue that other countries have wrong estimation in evaluation the current US economic realities. The real reason that caused the dispute between the US and Chinese will be discussed in this paper.

Key Words: Trade War; US-China Trade; Worst-Case Scenario

I. Introduction

Starting after US President Donald Trump announced on March 22, 2018, he wanted to impose an entrance fee of US \$ 50 billion for goods from certain countries. President Trump signed a presidential memorandum for a tariff policy on Chinese products totaling 60 billion US dollars. It is known that there are 1,300 products that will be subject to tariffs and mostly in the technology sector. As a result, import tariffs have increased dramatically, from 2.6% (tariffs subject to tariffs) before 2017) to 17% (post-2017 tariffs). Fajgelbaum (2019) states that these measures are interpreted as an economic policy that tightens trade between countries through ways such as tariffs on imported goods, quota limits, and various government regulations designed to create fair competition (according to its supporters) or can be called policies protectionism in a trade, which in economics refers to policies or doctrines to protect companies in a country by restricting or regulating foreign trade, this is the most extensive policy since 1929 and the policy that was adopted in 1971 by Richard Nixon as the president at that time. US trade colleagues reacted seriously, causing US export tariffs to increase significantly from 6.6% (pre-2017 tariffs) to 23.0% (post-2017 tariffs), in 2931 exports which included exports of \$ 96 billion to China. Ayesha and Bharti (2019).

This trade war will certainly have a definite impact, namely the decline in global economic growth. This decline will certainly be in line with trade tensions between the two countries. Studies conducted by Fajgelbaum (2019), illustrating the effects of trade wars are seen and depend on 3 factors. First is the direct impact received from the price list on prices, secondly on the cost adjustments caused by reallocation and tariff revenues. The third loss

¹ Corresponding Author: rizkybintang.2019@student.uny.ac.id

experienced by consumers and producers on an annual basis resulted from higher import costs reaching \$ 68 billion or 0.37% of GDP.

Panagarya (2018) said world trade had far experienced conflict before this event, many trades had gaps in the world trade system, the current era is called the second wave of globalization which has various types of conflicts. Internally related to a belief, liberalization indirectly benefits people with high incomes and wealth, severely harming those at the bottom. External conflict, the idea that trade liberalization has benefited several parties, including developed countries and East Asian countries.

The second is a preferential trade agreement (PTA) which is contrary to the spirit of multilateralism which is very dependent on the principle of the most preferred country (MFN), the third is the emergence of very large economic developments. Until there is a general agreement between tariffs and Trade (GATT) only economically strong countries take part in these negotiations (developed countries), led by the United States, this makes negotiation more complicated where developing countries are also involved and make commitments for liberalization trade, finally developed countries made the move by establishing a WTO world trade organization, developing countries had no choice but to approve it, otherwise, they would leave the WTO which would also make their MFN status lost, fourth, withdrawal of the United States from its role as a leader, the prospect of progress in the rounds being held in Doha diminished when the US began to emphasize zero tariffs in various sectors, one of which was the reduction in tariffs carried out in the industrial sector. In November 2001, WTO members gathered during the Fourth Ministerial Conference held in Doha, Qatar, deciding to start a negotiation called the Doha Development round. The subject matter of these negotiations varied, such as issues of agriculture or plantations, trade in services, revisions to WTO rules, and dispute resolution. In addition, this round of development also takes into consideration the needs of developing countries and the benefits they can derive from trade. However, members cannot find common ground in various matters. The Ninth Ministerial Meeting in Bali, Indonesia, in December 2001, WTO members succeeded in making a step forward in multilateral trade negotiation, a major step towards PTA throughout the world began after the United States first signed the PTA and this experienced great destruction in the multilateral system. From showing the main role in a multilateral trading system, the United States has begun to show a more selective attitude toward becoming a trading partner. Cracks like this will continue to be felt for years, causing cumulative effects, as felt in this trade war.

II. A Short History of the Evolution of the Global Trade System

As presented in Panagariya (2018) the first wave of globalization occurred starting in 1870 bilateral agreements agreed between western European countries, they were inspired by a preexisting agreement, called the French brazier agreement Cobden chevalier in 1860, at that time the country this expands their MFN status. outside Europe, especially Asia and Africa they want free access to their colony markets, while in European countries it is mandatory that China and Japan adopt the liberal economic policy system forced on them. when trade came to the time of the first World War, 1914, the first globalization was marked by the opening of the economy to the flow of services, goods, business, and capital from various countries, which then integrated their markets in a broader

direction. In that time span, international trade grew at a rate of 4% per year and international capital flows grew 4.8% per year.

During the period of the war or the first world war resulting in tariff and non-tariff barriers increased, many colonies and independent Asian countries such as China and Japan gained the ability to conduct their own trade policies after a very long period of exploitation. These countries also increase trade barriers. In the United States the famous Smoot-Hawley tariff added to the already high level of protection that was put into effect in 1929. This tariff could produce and add significant protection to industrial and agricultural products. With partner countries such as France and other developed countries. After the United States presidential election won by Frank D. Roosevelt in 1932 the situation underwent several changes, namely the signing of a trade agreement in 1934, called reciprocal trade, its contents, giving authority to the supreme leader (the executive), to end the trade agreement with the state partner, this year also For the first time the congress delegated tariff authority to the executive. In 1939 the United States signed twenty agreements covering 60% in the field of trade, this agreement had also fallen below 40%, more than 50% last year.

As the World War approached its end, the United States, assisted by Britain, began to look for ways to restore and restore international financial stability, first, they began reconstruction and post-war development as a whole, promoting a liberal trade order, to achieve these two objectives, on the first track year 1945 they hold a meeting or conference (Bretton Woods) to plan the establishment of two institutions, first called the International Monetary Fund (IMF), Second, called the World Bank, these two institutions are assigned to oversee, international finance and post-war development. On the second track, the UN Economic and the social council have begun efforts to prepare a charter for an international trade organization (ITO) that will implement any agreed rules. For this purpose, a preparatory committee was formed in 1946 consisting of 23 countries as a preparation. To compile the charter, known as the Havana charter, on March 24, 1948, the United States and 56 other countries signed the charter at a conference held in Havana. America chose not to sign the charter, resulting in efforts to form an international organization that was canceled, while the success of the 23 countries that were part of the preparatory committee was negotiating tariff concessions totaling 45,000 or \$ 10 billion starting from April and October in 1947. The 23rd members of the preparatory committee also ratified an agreement called a general agreement or called GATT regarding trade and tariffs which took effect on January 1, 1948.

The agreement is intended as a temporary step or action. With the ITO organization failing to be made, GATT was developed into a de facto institution or institution that serves as an umbrella for any future negotiation for trade liberalization, GATT as a de facto institution also implements agreed tariff concessions at the time of its signing. This institution has an office in Geneva, for 50 years it has continued and continues its work to promote and maintain a liberal global trade system. as many as eight rounds of negotiations carried out over 50 years successfully completed which were held in Uruguay, ended with the creation of a more formal institution. Starting January 1, 1995, the international trade system began to impose WTO rules based on the UR agreement. The WTO is an institution tasked with overseeing the application of this regulation. The UR agreement is the beginning of the history of the global trading system. The WTO as a strong institution causes plantations (agriculture), facilities, and

intellectual property rights to be incorporated into the rules of a multilateral trading system that can be enforced. Where every dispute resolution requires all members. Developing countries are starting to become the most active participants in this new institution. The leadership of the United States as a liberalization of trade in merchandise has the support of developed countries.

Table 1. US–China trade disputes (2002–2018) at the DSB.

Case status	Complainant	
	United States	China
Total number of WTO cases	23	15
Settled via/during consultation	9	1
Ruling favoring complainant	11	4
Ruling favoring respondent	0	1
Split decision	0	3
Pending	3	6
Length of time		
Average number of months from initial consultation to settlement	8	2
Average number of months from initial consultation to panel decision	28	26

Sources: World Trade Organization (WTO); US Trade Representative (USTR) Trade Policy Agenda and Annual Report (various issues).

III. American and Chinese trade relations

According to the Wall Street Journal on 1 August 2018 (Davis and Wei), the United States government has two main objectives for the US-China trade war. The first objective is to reduce the number of annual trade deficits owned by America by the US \$ 376 billion, in China by the US \$ 200 billion in 2017. The second goal is the United States wants to force China to change its unequal industrial policies. As explained in the report of the United States trade representative (USTR) on 27 March 2018. America took action to restore fair competition and stop unfair competition, due to China's industrial policy, which in 2025 China plans to make made in China, the policy requires subsidizing the Chinese industry and requiring foreign companies to use technology transfer as exchanges in the Chinese market in some previous trade examples. The United States is taking steps to attack China for violating WHO rules.

IV. American disappointment

The United States is dissatisfied, because the current structure of world trade, can be seen from the results of the asymmetry in the trading system, firstly, there is no significant balance between the United States and China external accounts, the two reports that enter the congress on China's WTO compliance. The United States Trade

Representative (2018) states that there is an attempt to increase access to additional markets for revocation or change China's problematic actions which should never be issued. The third concern is that China is already using illegal means by taking price discounts to get American technology. The four United States of America is disappointed with the WTO which has failed to secure its interests and repeatedly has not given permission to the United States to secure its own interests. The five disputes at the WTO involving the United States. Initially the US retaliated and did not allow the appointment of appellate judge judges, resulting in the appellate judge not functioning (Table 1).

Regarding the second point, a number of experts and observers have agreed that transferring technology has become a requirement for foreign industries to obtain entry into the Chinese market for a long time, (Wei, 2018; Dollar and Hass, 2017; Cambell and Ratner, 2018; Economist, 2018). In Brasletter (2018), discussing, what could have caused this to become a very big problem (sensitive) for the US, in a very long time. It is surprising why efforts are now emerging to fix this problem. The US-made changes in its policies because China increased its demand for border technology which was not really the type of technology that was moved by the US with developed countries, so they were not too much trouble to share with China. China also made policies deliberately designed to force foreign companies to transfer strategically sensitive technology to Chinese companies. This policy was made as an attempt by China to replace western companies that are currently at the forefront. China appears more as a strategic competitor than a partner. The problem of forcibly transferring technology involving Chinese companies does exist and it violates WTO rules relating to intellectual property rights which could have a devastating effect on China itself for advancing the global technology frontier. But the policies taken by the US are more likely to be contradictory, which would undermine aid to the United States itself by companies of several countries and their colleagues. Trade wars will only result in certainty in the current global trading system. Many impacts will be caused, which are not good for trade or business relations. Point four, what the US has claimed is different from the data, the data revealed that the dispute resolution body decided to support China one-third of that time. In the WTO, this is evidenced from the table above which states that the US faced Chinese practice 23 times with a record of 0 losing 19 wins, the table explains it was clear that about 40% of the time, the US complained to China so that the problem was resolved after consultation and this results in a protracted resolution by the dispute resolution panel. It sees that the US assumptions which are blamed on WHO that conflict with interests is completely wrong.

Norrlof (2018) explains that currently the US is seeing itself as a victim because of the results of assumptions that are not appropriate. First, international unity (cooperation) is a public good and the most powerful state must bear unbalanced costs. In fact, this results in a mismatch because the analogy of public goods is deemed inappropriate for international problems, this can be seen as not a matter of competition. Second. US military and economic capability underwent a fundamental exchange, in fact almost completely dominated by the security sector which strongly supports American commercial and monetary dominance. America has significant multi-dimensional strength and synergy.

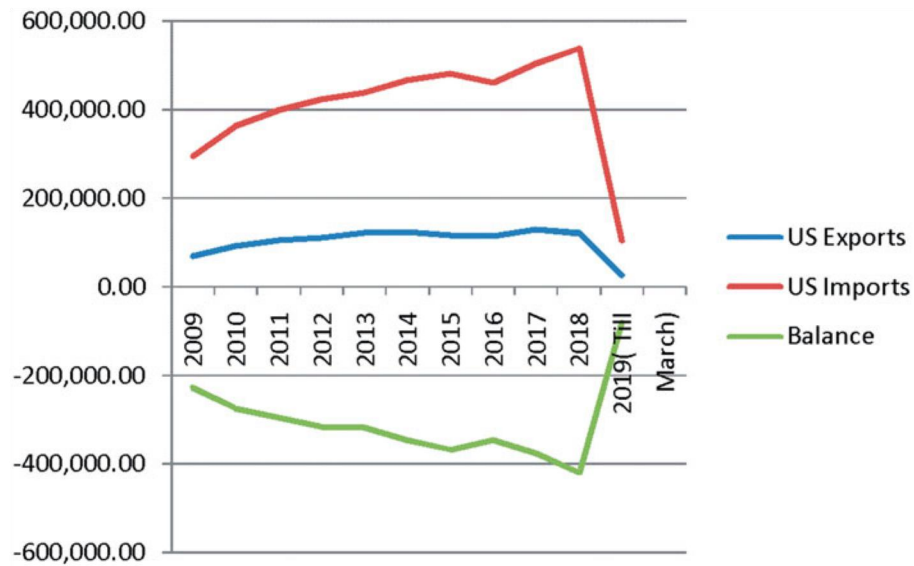


Figure 1. Trade in goods between U.S. and China (all figures are in millions US dollars)

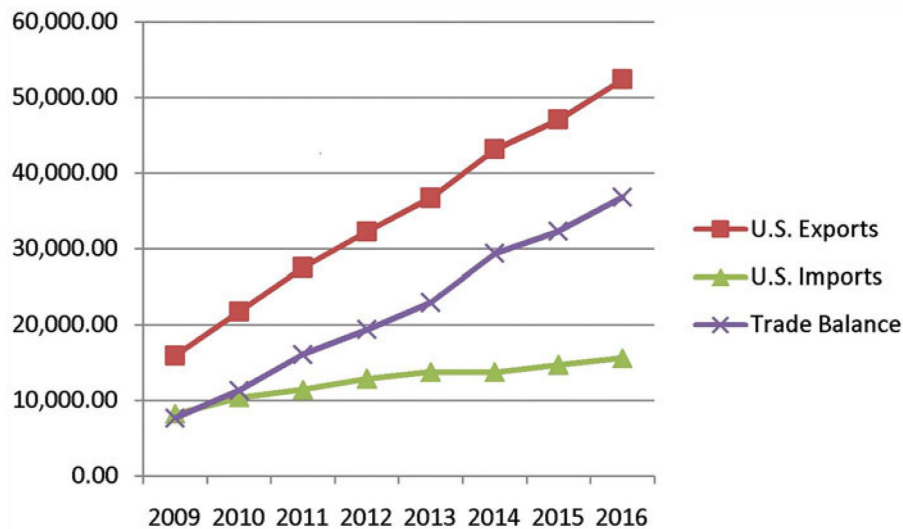


Figure 2. Trade in services between U.S. and China (all figures are in millions U.S. dollars)

Third, there is an exchange between domestic involvement and international involvement, that the last spent resources can be diverted for the purpose of improving domestic welfare. This has very little benefit for the United States because this structure is commonly referred to in the literature as the Liberal International Order and a fact that the rules of the world remain centered around the United States (Figure 1). Additional points as seen in (Figure 2) explain a stable growth, in the service trade between the US and China showing a surplus, although experiencing a surplus, the size of the deficit is not as great as that in goods trade.

The US-China trade deficit increased in the 1990s when Chinese exports began to increase, this proves that in the manufacturing section, the US manufacturing section has faced a drastic decline to date among all US trading

partners, US-China trade in goods produced a total deficit which is \$ 419 billion, this is the largest trade deficit in goods owned by the United States in 2018 and also the highest deficit ever experienced. A special example expresses disappointment in determining trade policies that have been implemented in 2017. Economic theory explains that the trade deficit that shows per se is not a sign of economic imbalance. In many cases, President Trump has cut taxes that will increase domestic spending on US imports. Every dollar experiencing strengthening also contributes to forming a lower level of consumption for US producers and consumers, as a result Trade without considering the above factors is called illegitimate, this can be seen in (table 2). US service exports sent to China have experienced a significant growth than service imports from China to the US, so despite being small from the goods deficit, profit or surplus must be considered.

Table 2. US–China: 2009–2018

Year	Exports	Imports	Balance
Until March 2020	22,002.2	75,899.1	-53,896.9
2019	106,626.8	452,243.4	345,616.7
2018	120,148.1	539,675.6	419,527.4
2017	129,797.6	505,220.2	375,422.6
2016	115,594.8	462,420.0	346,825.2
2015	115,873.4	483,201.7	367,328.3
2014	123,657.2	468,474.9	344,817.7
2013	121,746.2	440,430.0	318,683.8
2012	110,516.6	425,619.1	315,102.5
2011	104,121.5	399,371.2	295,249.7
2010	91,911.1	364,952.6	273,041.6
2009	69,496.7	296,373.9	226,877.2

Source: United States Census Bureau (2019).

As explained in Nye (2019) in terms of the military and the economy, the US is still the strongest force, the US is the largest country that controls and regulates almost all global goods production, it needs to be remembered that political dispensation at this time cannot be separated from the world militarily, in fact, hostilities are increasing under the trump presidency, military power will remain a very important component in global politics. In some aspects of goods in the military and economic fields, under US command (leadership) has changed many things, for example, the United States Navy has an important role in maintaining ocean laws, maintaining navigation looseness,

and in the financial crisis (crisis) that struck 2008-2009. From this discussion, it is very clear that the US is far said to be a victim. For this incident, it was the Trump administration that made it all happen, Felbemayr (2018) explains the misunderstanding of economic matters, the ability to accuse foreigners, has a very important role to function in the legality system trade war in the United States. Although in fact this is very complicated than what is seen.

V. Economic impact and worst scenario

There are a number of studies that have predicted what effect China will have on this trade war with the United States. Guo et al (2018) argued that the US would sacrifice the current situation (trade war) to raise tariffs by up to 45% on China, not just China, allowing the whole world to be affected by the US policy, Morgan Stanley in research entitled 'Trade Tensions': Linger for longer 'estimates China's exports will gradually decline to 4%, 8%, 13%. If the US raises tariffs by 15%, 30%, 45% on all goods imported from China, economic growth is expected to fall to 5%. In the same research. Morgan Stanley also estimates that the negative impact that will be received by the US is the reduction in the US economy by 0.3-0.4 bps. If this trade war continues and imposes import tariffs on China, US consumers will feel the greatest impact.

Worst scenario

Tai and Li (2019) explain in detail, In a trade war that is taking place, the US strives. To attack Chinese exports or goods manufactured in China by increasing tariffs, China has asked to take an equivalent tariff on US imports. The effect of tariffs on imported materials (goods) is very easy to feel, the costs raised by the US have resulted in a reduction in the attractiveness of goods from China by changing it more expensive in the United States market, which will impact or reduce Chinese exports to the United States.

In this international trade, price modification that occurs between domestic products and imports is very common, which is caused by, the quality (value) of exchange, technology, tariffs, demand, and others, with this equality (trade war), a reminder In history, the 25% increase imposed by the US will change the trading volume system. Not only was China involved in trade wars with the US, but Japan had also often experienced trade conflicts with the US, caused by a quality war (exchange rate) in the 1980s that had a huge impact, in September 1985 after Japan and the United States ratified a plaza accord agreement, the value of the yen has increased dramatically against the dollar more than 80% in the next three years.

Figure 4 explains, the value of Japanese exports to the US in millions of yen, from 1981 to the ratification of the Plaza Accord agreement in 1985. Exports to the US show a rapid increase. In 1988 showed the opposite, the value of Japanese exports to the United States had decreased to 11.49 trillion (yen), far lower than in 1985.



Figure 4. Japan's exports to the US around the time of the signing of the Plaza Accord.

Data source: Japan Tariff Association

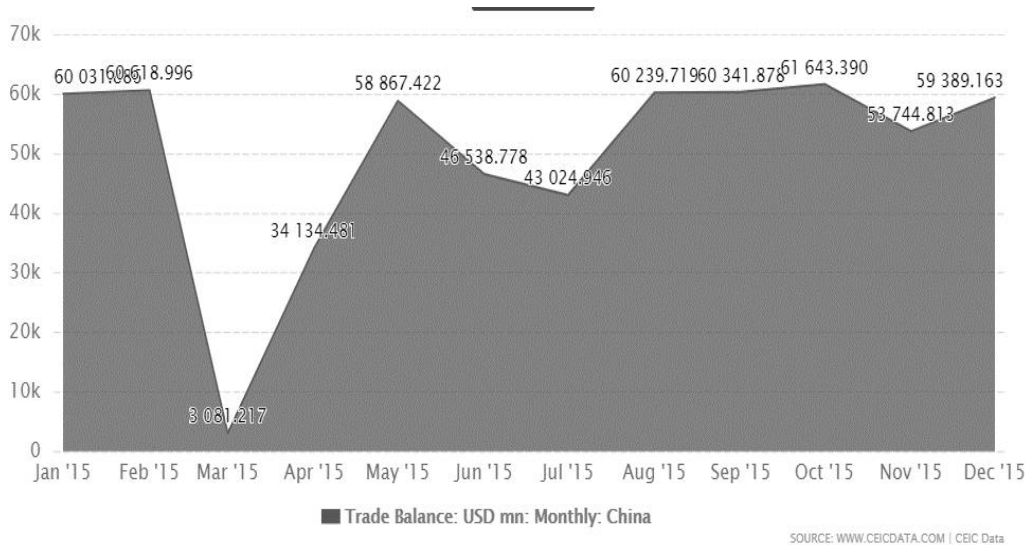
After that, the complimentary yen caused by the Plaza Accord resulted in significant growth in the prices of all Japanese goods, whereas the 25% tariff on Chinese goods only affected the export sub-group. Based on this fact, Tai and li (2019) argue that a figure of around 27% is a reasonable assumption caused by the maximum reduction in trade to see a 25% growth in export costs imposed by the US on China, it should also be pointed out that the plaza accord has a consequence namely the increase in Japanese export prices. To clarify, the current rate increase is 25%, but at that time the yen was forced to be valued at 80%, even if we calculate the recent RMB depreciation, the growth of Chinese commodity prices could be lower than 25%. After that, the complimentary yen produced by Plaza Accord resulted in significant growth in the prices of all Japanese goods, while the tariff charged on Chinese goods was 25%.

Economic impact

In Tai and Li (2019) to measure the effects of the trade war on Chinese output, the first way to calculate how much spending is on all outputs, in 2017 China kept a trade surplus of US \$ 375.2 billion with the US, this data was released by the US Department of Commerce. As for the worst-case scenario, the trade volume has shrunk by 27%, it's clear China will lose a trade surplus of US \$ 101.3 billion with the United States. To create an export commodity, imports and inputs in the country are needed, it can be said, the total value of exported goods can be divided into two parts. The first is the value of imports which are semi-finished goods that are often used in the manufacture of export commodities. Second is the added value, that is the amount created due to the input of domestic goods or services, this results in a change in the value-added portion to the export trade surplus, with respect to that, the rest is taken by other countries. So it is part of the added value, not the total amount of all surpluses, which rule overall output.

In other words, the decline in the trade surplus is estimated at the US \$ 101.3 billion, certainly not comparable to Chinese payments which are deteriorating on the same scale. In fact, among the US \$ 101.3 billion, only a small portion that affects or equals the added value of Chinese companies can have an impact on China's GDP. Remaining from losses will be given to other Chinese trading partners, China will impose a decline in exports

to the US by reducing imports of raw materials in response. The meaning is, the decline in the trade surplus is estimated at the US \$ 101.3 billion, certainly not comparable to Chinese payments that are deteriorating on the same scale. The proof is between the US \$ 101.3 billion, a small portion that affects or equals the value-added of Chinese companies which can affect China's GDP. What's left of the losses will be given to other Chinese trading partners, China will impose a reduction in exports to the US by reducing imports of origin materials in response.



Lau, Chen, and Xiong (2017) estimated that the ratio of value-added from Chinese exports reached 55.72% using the 2015 Chinese trade data. As seen in the picture above is a graph of China's trade balance in 2015. This also needs to be It has been evaluated that China has started to seriously improve its corporate structure since then, it can be seen by the addition of the number in recent years. To justify that we simulate the worst scheme, 60% is the sum of the value-added ratios used for analysis. It could be said, that the depreciation of the trade surplus of US \$ 101.3 billion was calculated could reduce net exports of US \$ 60.8 billion.

We must consider how the decline in net exports of US \$ 60 billion is interpreted as a decrease in total output, taking into account other effects such as the multiplier effect and the consumption effect. Li and Zhong (2012) also estimate the percentage of small consumption in China each year, what trends result in it, although the percentage varies between years, averaging over 0.5, that in this case we calibrate the parameters for the worst-case scenario. We must be careful in setting marginal inclinations to only 0.5. 0.5 is a marginal tendency For consumption which can be interpreted as a multiplier of 2, then this can indicate the amount of net export decline in the amount of US \$ 60.8 billion which will bring GDP down to the US \$ 121.6 billion. In 2017 the International Monetary Fund (IMF) announced the total amount of China's GDP of US \$ 12,014.6 billion. Based on our calculations, this will make China's GDP go down by 1.01% due to trade war. What should also be seen in 2017 China's economic growth is 6.9% and has a special effect on output.

VI. Conclusion

The trade war between the United States and China has succeeded in gaining interest from the international world, not only is it confusing, but it involves almost all sectors of the economy. The trade war has yet to show signs of stopping, this could have bad consequences in the future. The United States may have felt half the short-term use of the ongoing trade war, the US must be quite worried because its trading partners affected by tariffs have begun to retaliate, China has declared a peaceful attitude, but they also take a firm stand by not going backward. Could have a negative impact on the US, even could reduce the benefits that might have enjoyed the US so far. Academic research shows that the ongoing trade war will have an extraordinary effect on the world trade system, not only the United States and China

IMF data (2019) states that the US and China are the two main actors of the world economy because it is almost controlled by these two countries, this is evident from the combined GDP of the two countries amounting to \$ 40 trillion or 45% of world GDP, these two countries need to think about the impact will be on the world, other countries just need to emphasize how the fate of economic growth in the future and this will be seen to be increasingly difficult to face the two main economies of the world which are at war in trade.

As explained earlier, the gap in the economic system resulted in a dispute, this said the gap has reached its peak. The functions of the talks, clarity, and resolution of disputes led by the WTO were opposed. This can be seen with the defeat of WTO members to conclude the first part of the trade cooperation negotiations under the protection of the WTO in 2001, on the Development of Doha, which called for reform. This kind of thing can be caused because all members of the WTO have their own interests to protect the structure of their multilateral trade. Apart from increasing dependence on bilateral trade agreements, the US which has a large economy requires a functioning multilateral trade regime due to the large number of global trade practices that cannot be effectively addressed. Large-scale tariff reductions that occur because of GATT and WTO support have been able to reach a certain level because of the nature of cooperation. Narlikar (2005) Saying this cannot be denied, because it has benefited developed countries. With these advantages, a limitation does come. As developing countries must be stronger in the WTO compared to what happened in the GATT period, developed countries cannot manipulate their power, so even though it was originally a system established by some developed countries, led by the US, it did not experience failure in acting as the system regulates developed countries. when rules are categorized and there are replies to violators, they also cannot easily deny the rules. It also helps developing countries to form their own coalitions to increase their bargaining power.

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