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국제학석사학위논문

A Critical Evaluation on the U.S.-China Trade War:

A Fight for Hegemonic Position at Stake

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Abstract

Conventional wisdom holds that trade is a positive-sum game and not a zero-sum game. When countries are allowed to produce the goods that they can efficiently produce, everyone benefits from free trade. One wonders then why the two largest economies, the People's Republic of China and the United States of America, are currently in a trade war that can end up affecting their economies. The objective of this paper is to evaluate the US-China trade war and explore its connection to the fight for global hegemony.

As both states are pursuing hegemonic positions, there have been inevitable conflicts, such as the Trade War, tariffs raise, and the Road and Belt Initiative. In all these cases, neither the US nor China is trying to compromise its authority and goal as the hegemon. To evaluate these phenomena and to predict possible consequences, this paper borrows from two international relations theories, that is, the power transition theory and the hegemonic stability theory.

The central thesis that the paper puts forward is that a fight is inevitable during hegemonic power transition period, but because the only potential outcome of a fight in the new trend of war will be co-destruction, they need to find a bargaining point to pursue co-existence. Drawing insights from the hegemonic stability theory and the power transition theory, the paper shows that the US has launched a trade war with China because of its fear about its declining hegemony, as well as the rapid rise of China as a strong challenger. The two theories assert that there have been wars whenever there was a power transition of hegemons and a hegemon fails to provide global public goods to preserve international order. Therefore, there is a need to analyze the competition for hegemonic position between the two superpowers by putting the trade war in context.

The research conducted herein shows that the current US-China trade war exemplifies a new trend of war for hegemony. The hegemony conflict between the two nations is complicatedly correlated with neighboring countries not only economically but also politically. Thus, the ongoing Trade War may persist for a long time, and it is headed for a major collision. In fact, the US is continuously taking provocative actions to China, and Chinese actions, including its mega investment in the Road and Belt Initiative, depict a rising power that wants to displace the declining US. This endless Sino-US rivalry for hegemony is lose-lose game for the both states and neighboring countries.

Key Words: US-China Trade War, Power Transition Theory, Hegemonic stability theory, Belt and Road Initiative, all-out war

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A Critical Evaluation of the US-China Trade War: A Fight for Hegemonic Position at Stake

CHAPTER ONE: INTRODUCTION

1.1 Background Information

Hegemony refers to a situation in which there is an inequality in the distribution of power (Goh, 2019). In this situation, one entity or nation dominates others. Throughout history, international order and peace in the world were ironically maintained by this inequality of power, taken by a single hegemon. On the other hand, whenever a hegemon started losing its power by a newly emerging power, there has been a fight occurred. These repeated phenomena reflect the current Trade War between the US and China. Since the United States took the hegemonic position after the end of World War II, it has been managing the world order successfully by supporting other countries to freely join the global market. However, China rapidly grew big enough to threaten the hegemonic position of the United States, and like the past, a conflict has been occurred during the process of power transition.

The US President Trump has been cutting down on providing global public goods and pursuing protectionism, which are the roles of hegemon to keep world peace. Furthermore, the US is currently in a trade war with China, which started in 2018 when Trump's administration imposed higher tariffs on Chinese imports, including solar panels, aluminum, washing machines, and steel. In retaliation, the Chinese government also imposed a 25% tariff on key US imports, such as automobiles and agricultural products. When countries put trading barriers like this, it becomes hard for consumers to get cheaper goods because countries cannot sell the products that they are efficient in producing. It calls for investigation, therefore, why the two largest economies would engage in a trade war at the expense of their economic interests. It is obvious that the current war will impact negatively on both countries. What could be the underlying cause of the conflict?

The nearest the two nations have ever come to armed conflict was in 1996 when China attacked Taiwan, and President Clinton sent two aircraft carriers to the South China Sea. At the time, the US had the upper hand due to its superior military ability. However, for over 20 years now, China has greatly enhanced its military capabilities. Presently, an all-out-war with China would be disastrous, especially due to presence of nuclear weapon. Based on the insights from International Studies theories, there is a possibility that the United States and China are headed for a major collision in the end of current trade war. Because any collision could mean a nuclear war, there is a need to explore the ongoing trade war by studying international relations theories, including Power Transition Theory, Hegemonic Stability theory, and Balance of Terror Theory.

1.2 Purpose of the Study

The purpose of this study is to develop an understanding of why and how the US-China Trade War is happening by utilizing statistical data and theoretical perspectives from interdisciplinary research. The paper aims to show that if the tension between the US and China as a result of the ongoing trade war is not alleviated, there will be an explosion that can lead to an all-out war.

1.3. Argument

China has emerged as a global power that threatens the interest of the United States as the de facto hegemony. The ongoing trade exemplifies the power play as the United States takes steps to reaffirm its position and put China back in its subordinate place. However, China is spoilt for a fight. A fight is inevitable during hegemonic power transition period, but because the only outcome of a fight will be co-destruction, the US and China need to find a bargaining point to pursue co-existence.

CHAPTER TWO: FRAMEWORK AND LITERATURE REVIEW

2.1 Analytical Framework

This paper uses the analytical framework to support the collection and analysis of data. Analytical frameworks have been used in empirical research as a way of organizing the study. This paper focuses on the analytical framework of the US vs. China trade war. The emphasis is on international relations theories and the findings of current literature about trade policy. The thesis examines the implications of the ongoing trade war, with the lynchpin of the analytical framework being the assumption that trade policymakers are essentially rational. When there is a power transition of liberal international orders between the hegemon and rising power, a war occurs

The analytical framework adopted herein first explores the recent literature on the matter before giving a detailed critical analysis of the situation.

A. Literature Review

1. International Relations Theories

- i. Power Transition Theory (PTT)
- ii. Hegemonic Stability Theory (HST)
- iii. Kindleberger Trap Theory (KTT) and Thucydides Trap Theory (TTT)
- iv. Balance of Terror Theory

2. The USA-China Trade War

- i. History of the Conflict
- ii. Tariffs are Climbing
- iii. Other Factors Contributing to the Conflict (Trade Deficit)

3. China's Belt and Road Initiative

B. Political Economy Aspect of the US-China Trade War

1. American Hegemony and Power Transition Theory
2. Critical Analysis of the Trade War
 - i. Chinese Investment in the US
 - ii. The Trade Deficit and FDI
 - iii. Effects of the Trade War
 - iv. The Huawei Angle of the Trade War
3. The political economy of the Belt and Road Initiative
4. Sino-US Competition for Global Hegemony

2.2 Research Question

- Does China's steady rise in the recent past pose a threat to the United States and eventually cause a war in the process of changing the world order?
- In a paradigm shift beyond industrialization, does the world still need a hegemon to stabilize international order?

2.3 Independent and Dependent Variables

- Dependent Variable: United States Hegemony
- Independent Variables: China's rise as a global power, and the United States Protectionism

2.4 Most Plausible Data

- Data about current tariffs to show how the tariffs are climbing on the US
- US trade deficit in relation to China
- Chinese Direct Investment in the US
- Annual China GDP growth prospects

2.5 Hypothesis

As political, military, technological, economic, and soft power become more and more balanced between the US and China, the fighting tension to achieve hegemonic position would become worsened, which could eventually lead to an all-out-war.

2.6 Theoretical Framework (Literature Reviews)

a) Power Transition Theory (PTT) & Balance of Power (BPT)

| | Balance of Power Theory (BPT) | Power Transition Theory (PTT) |
|----------------------|---|---|
| International System | Anarchy | Hierarchy |
| Scholar | Hans Morgenthau (1967) | A.F.K. Organski (1958) |
| Conditions for Peace | Balance of power | Imbalance of power |
| Conditions for War | Imbalance of Power | Balance of power (When other states are not satisfied with the newly emerging hegemon) |
| Source of Power | Bonds with Allies | Industrialization |
| Aggressor | Strong | Weak |
| Goals | Maximizing Power | System Support / System Destruction |
| Limitation | Only under Anarchy (When a goal is to Survive) | Only works in Industrialization |

There are two controversial theories that explain why and how a war would occur during hegemonic power transition period. AFK Organski developed the first theory of power transition in 1958, analyzing the patterns of warring states in the past 500 years. According to Organski, the national growth of Hegemonic country becomes relatively slower, compared to that of other superpowers, and eventually, the power of the dominant country and the superpowers become closer. When this reaches a certain point, it happens like a pattern that the rising power attacks the hegemony (Organski, 1958). In order to estimate national power of each state, he used six components (in orders of importance level): population size, efficacy of political structure,

economic development, national morale, resources, and geography. As a quantifiable indicator, Organski used Gross National Product (GNP) as a measurement to estimate population size and economic development (Organski, 1958).

There are two essential findings from Organski's theory of power transition. The first is that the possibility of a war ironically increases when the most dominant state's and the second strongest state's national power becomes balanced. The second key point is that international order can be balanced peacefully when the original hegemon and other states are satisfied with the newly emerging hegemon's role.

On the other hand, Morgenthau pointed out the uncertainty of the Balance of Power Theory (BPT) in the sense that it is difficult to accurately compare and evaluate national power because of the inextricability of national power and the interdependence of national power (Morgenthau, 1967). According to Morgenthau, in a situation where a number of Superpowers coexist, it is in the form of preventing a specific state from occupying a superior position and maintaining a balanced relationship of power between each country or its armies.

There are many ways to create a balance of power. There is a way for each country to augment its power according to its own judgment and thereby create a balance with opposing countries, and some countries create it by entering into a military alliance. In some cases, several countries cooperate to implement disarmament, thereby promoting a new balance of power.

However, there is a problem in obtaining national security or peace between nations from the balance of power. Even in the case of power balance, there is no third party to judge which state is called power balance from a fair standpoint, so each country has no choice but to judge it in its own way. For this reason, each country tries to ensure its own security by putting its own strength in a position slightly stronger than that of the other country when trying to balance its

power with other countries. If such a policy is pursued by both sides, the natural arms race is paralleled, making it difficult to balance power, and even if it is established, it will soon be broken.

These two theories predicted the possible transformative power war between China as an increasing challenger and the United States as a weakening hegemony in the international community, before China embarked on a remarkable growth journey (DiCicco, 2017). Organski considered that China would increase in its domestic growth "spectacularly," and "China's influence could inevitably expand," and "the West would think that China is the most significant threat to its dominance" (Akdag, 2019). However, such transformations can be peaceful, as in the US, where the rising power is happy with the world order overtaking Great Britain. On the other hand, the transfer of power can lead to war as Germany, an unfulfilled power, had raised a war to take over the hegemon, the UK. Does China's growth foresee the start of worldwide instability or even a big power war inexorably? Standard parallels are made now, more than 100 years ago, between an upward China and Germany.

However, it was much more careful to Organski (DiCicco, 2017). He said that China "is not Germany" and that the weakening dominant power and a continuing competitor had "other influences outside the relative power" to be at the core (DiCicco, 2017). In fact, Organski (1958, p.203) admitted that a proper measurement to prove effectiveness of political structure has not been developed, and it is a major task for political scientists to accomplish. Organski (1958, p.307) also mentioned that differential industrialization was the key element to understand the power shifts in the 19th and 20th centuries, but because it wasn't always the key element before 1750, PTT would become inapplicable at some point. These considerations are discussed in this paper, and China's dynamic against the US and its allies is analyzed, trying to address the question 'is it unavoidable for instability?'

b) Hegemonic Stability Theory

Hegemonic Stability Theory uses realism to describe in which situation the world maintains peace and be stabilized (Clark, 2014). The theory argues that liberal international order can be stabilized or unstable, depending on the presence of a hegemon. Simply, there is a peace in international system with a hegemon in presence, but there is instability when a hegemon is missing. This phenomenon happens because the hegemon supplies global public goods to the international society (Webb and Krasner, 1989). For example, the hegemon acts a world's police and provide national security to the world by punishing invaders or cheaters in political economy society.

However, when the existing hegemony enters into a period of decline, the hegemony country's calculation of national interests from an open market system changes. Therefore, it is difficult to maintain an open international trade order, which soon leads to the closure of the international order (Krasner, 1983). This means the world might be missing a hegemon to stabilize the international order during the power transitioning period, and as Organski demonstrated, a war is likely to occur when there is a power transition of a hegemon (Organski, 1958). The two trap theories below further explain why and how the rival countries fall for the lose-lose game fights to achieve or maintain the hegemonic power.

c) Kindleberger Trap & Thucydides Trap Theory

| | Kindleberger & Thucydides Trap | Balance of Terror |
|----------------------|---|---|
| Conditions for Peace | Public goods | Power to destroy each other by Nuclear Weapon |
| Conditions for War | - Rising Power Fail to provide Public goods - Original hegemon feels fear from new power | Political Conflict |
| Source of Power | Approval of neighboring countries as a hegemon | Nuclear Weapon |
| Goals | Maximizing Power by avoiding Hegemon's role | Having undefeatable power |

Charles Kindleberger, one of Marshall Plan's academic architects, demonstrated the catastrophic decade of the 1930's. Kindleberger claimed that the great depression in 1930's occurred because of the US' leadership failure after displacing Britain's hegemonic position; the US struggled to provide the global public goods after displacing Britain as a new hegemon (Kindleberger, 1973). In particular, he argued that the hegemon has to play five significant roles: maintaining an open market, supplying long-term loan stably, maintaining a stable exchange rate system, coordinating macro policies, and playing a role of money-lender in case of a financial crisis (Kindleberger, 1973). If the hegemon fails to fulfill these five obligations, the world may fall into Kindleberger Trap, resulting in failure of global system, such as depression, genocide, and world war (Nye, 2017).

However, when the hegemonic position is threatened by the second greatest power, the hegemon can easily fall into Thucydides Trap, a term coined by Graham Allison, a professor at Harvard University's Kennedy School (Allison, 2017). Allison claimed that 12 out of 16 hegemonic power transition have been led to a war since the year 1500, and he related this phenomenon to the explanation of the ancient Greek historian Thucydides, who wrote “The History of the Peloponnesian War.” Allison analyzed Thucydides’ story that Spartan's fear against the sudden rise of Athens was the cause of the Second Peloponnesian War (Allison, 2017). He called this persistent tendency of the previous hegemons, “Thucydides Trap.” In 2017, Allison wrote in his article “Destined for War” that the US and China are also falling into Thucydides Trap because the US had started to take hostile actions against the newly rising power, China (Allison, 2017).

The Thucydides Trap and the Kindleberger Trap both underline the risk implicit in the changing power balance. Both traps are triggered whenever there is a power transition of hegemonic position, and in case the rival states fall into these traps, it only causes negative outcome. In sum, in order to be called and admitted as a true hegemon, it is a duty to make self-sacrifice for the benefits of the whole world. Otherwise, the world can fall into a panic in the process of fights between the hegemon and an emerging power. Despite the findings from these traps, the US has imposed the highest tariffs in the last 100 years against China, which is a piece of evidence that the US is falling into these traps and there would be only negative consequences. This paper analyzes the progress of the US-China Trade War, reflecting the findings from these two trap theories.

d) The Balance of Terror

Balance of Terror theory explains why the use of physical war has declined, especially as nuclear weapons have been developed. After the invention of nuclear weapon, countries may have enough power to totally destroy one another with nuclear bombs in the case of any conflict. Thus, the launching of war may be for all enemies a losing situation. The higher the expected war cost, the lower the likelihood of war (Organski, 1958). In fact, after witnessing disastrous result of actual use of nuclear weapon in Japan during World War II and experiencing horrific fear from Cuban Missile Crisis in 1962, people have learned that the next physical war could become result in an extinction of human race. Since then, rival states have tended to avoid any physical war at all cost, which has created a relatively unusual type of hegemonic war like the US-China Trade War. In short, the theory supports the reasons for the decline of the all-out-war but the incline of limited war. In regard to the new trend of hegemonic war, this paper discusses essential reasons for the Trade War and possible consequences of this prolonged dispute.

CHAPTER THREE: Political Economy Aspect of the US-China Trade War

3.1. The USA-China Trade War

a) Essential Causes

The rapid economic growth of China was ironically triggered by the US in 1970's when a former President Nixon and a Nobel Peace Prize Winner Dr. Nixon started Detente. As Balance of Terror depicted, the US had experienced the horrors of physical war and realized the importance of cooperation with other superpowers, even if they are long-time enemies (Kissinger, 1994). In fact, Kissinger and President Nixon visited China in early 1970's in order to open China's market internationally. This was the first attempt for the US to actually communicate with an enemy country after China and the US had fought against with each other in Korean War in 1950. Since then, the US had opened détente era and continuously tried to drag China to international society. As a result, China's economic growth has risen dramatically since the Chinese Opening in 1978, by averaging 9.6 percent per year between 1978 and 2017, as calculated by the Gross Domestic Product (GDP). Especially, since 2001 when China joined WTO, assisted by the US, China's total GDP size, political strength, and military powers have now become high enough to threaten the US' hegemonic position. China is the second-largest economy in the world. Several scholars, including Mearsheimer (2014), argue that China's emergence would bring into question America's dominant position and that the confrontation between the major powers is imminent. Scholars like Allison (2017), however, understand that major power rivalry is not unavoidable and encourage the decision-makers to research the Cold War lessons in depth.

b) Brief History of the Conflict

The relationship between the US and China worsened sharply after Donald Trump took office. In August 2017, he started tackling on China's intellectual property right policies and

imposed tariff on Chinese goods. Trump proposed a tariff of 25 percent on some Chinese goods on 22 March 2018 – the same day that the US trade representative released their 'Section 301' paper. The outcome of this move was finally the tick-for-tat intervention in China, which led to the war on trade. Behind Trump's trade war with China, there are two important reasons. In the economic sector, the government needs the trade deficit to be minimized or reversed. On April 4, 2018, Trump tweeted that "[the US has] a \$500 billion annual trade imbalance and an intellectual property theft worth \$300 billion more. We can't let it go on!" Several US comments believe that the gear guard imbalance is a gradual rise in the US indebtedness towards China, which is perceived by many Trump consultants as an enormous risk to the United States. The US economy also had a sluggish rise, fewer jobs, and growing public debt as a result of trade-related structural problems.

In the political context, Trump administration's intention was to delay China's rapid growth as a high-tech powerhouse, taking into account the growth in China. Equipment, electronics, and IT technology are the major focus industries. This is similar to the US specifically targeting the ten year strategy of the Chinese Government-produced in China in 2025-motivated by the growth plan of German government Industry 4.0 and targeted at supporting the productivity of China by rapidly growing 10 high-tech industries. The ensuing trade war has been influencing other countries negatively, as it is a fight between the two most powerful nations (Onyusheva and Nain, 2019).

c) Tariffs

According to statistics from the Peterson Institute for International Economics (PIIE), China's average tariff rate is climbing on the US goods, but it is falling for other countries (Bown, 2019). The Table below shows this situation.

Table 1: Table showing tariffs climbing.

| Year | Date | Actions | % tariff on US goods | % tariff on the rest of the world's goods |
|------|--------------------------|--|----------------------|---|
| 2018 | 2 nd April | Retaliation for US section 232 tariffs | 8.0 | 8.0 |
| | 1 st May | MFN cut on pharmaceuticals | 8.3 | 8.0 |
| | 1 st July | MFN cut on consumer goods, autos, ITA products | 7.2 | 6.9 |
| | 6 th July | Retaliation for US section 301 tariffs (\$34 billion dollars) | 10.1 | 6.9 |
| | 23 rd Aug | Retaliation for US section 301 tariffs (\$16 billion dollars) | 14.4 | 6.9 |
| | 24 th Sept | Retaliation for US section 301 tariffs (\$60 billion dollars) | 18.3 | 6.9 |
| | 1 st Nov | MFN cut on industrial goods | 18.2 | 6.7 |
| 2019 | 1 st Jan | Suspension of retaliation for US section 301 tariffs against autos and parts; temporary MFN rates for 2019 | 16.5 | 6.7 |
| | 1 st June | Tariff increase on some US products (a subset of \$60 billion) | 20.7 | 6.7 |
| | 1 st Sept | Tariff increase on some US products (subset for \$75 billion) | 21.8 | 6.7 |
| | 15 th Dec | Tariff increase on some US products (a subset of \$75 billion) and re-imposition of suspended retaliatory on autos and parts | 25.9 | 6.7 |

that both nations have been negatively affected by the war. The most affected US companies are those who manufacture in China, and they have been forced to change their strategies.

The current position is that the situation is calming. When the tariffs were initially imposed, leaders from both countries took strong positions, with each threatening the other with more stringent measures. However, during last December's G20 summit, Trump met with his Chinese counterpart, Xi, and this formed the turning point of the trade war (Zandi, Kamins, Cohn, & Rogers, 2019). Scholars have observed that the war was unnecessary, and it was only initiated by Donald Trump's apparent lack of diplomacy and his aggressive approach.

In Trump's populist approach, the US trade deficit is a critical component of the narrative. According to him, there is unfair competition between the US and some trading partners such as Japan, Mexico, and China. Specifically, he alleges that China is a currency manipulator which unfairly increases the competitiveness of its exports by intentionally lowering the value of its currency. He, therefore, came up with a straightforward strategy for addressing the matter. For instance, he called for a renegotiation of all trade treaties, singling out the North American Free Trade Agreement, which he labeled as worst for the country.

According to Berthou, Jardet, Siena, and Szczerbowicz (2019), the protectionist measures targeting specific trading partners such as China and Mexico may negatively affect the US economy and consequently lead to severe implications for global trade. In the short term, the imposing of tariffs causes a rise in the price of goods, affecting businesses and households. After the introduction of the taxes, it is estimated that the global GDP fell by 0.7%, and it would have increased to 1.1% had they persisted for more than three years. Also, there are indirect effects such as a fall in productivity, a rise in the financial cost of capital, and a drop in investment for fear of uncertainty.

Wallace (2019) observed that the global economy is negatively affected by the US-China trade war. Even though the two countries have finally agreed on a trade deal, the damage caused by the punitive tariffs may be felt for a longer time. According to Li, He, and Lin (2018), China was much hurt by the crisis. Furthermore, the trade war will impact the economies of other countries in terms of GDP and manufacturing employment rate. Trump trade wars had affected close to \$ 450 billion of world trade (Devarajan, Go, Lakatos, Robinson, and Thierfelder, 2018). The most affected nations are the developing countries that do not have any bargaining power in global business.

The violent level of physical war has been decreased since Capitalists defeated communists during the Cold War, but the concept of capitalism is ironically triggering a new trend of silent War, the US-China Trade War, which needs to be wisely negotiated in advance to avoid another disaster of physical war. In order to find common ground before triggering a military War, both China and the US have to agree upon peaceful, fair competition by cooperation.

The Literature review has identified similar cases to the current trade war. For instance, Read (2005) noted that President George Bush had carried out protective actions in 2002 when he imposed a 30% tariffs and quotas on steel. However, the case is different from the Trump situation since the margin of protection under Bush were determined to reduce yearly within a span of three years. The affected countries included Japan, China, and the EU (Read, 2005, p. 1122).

The situation has eased in 2020, especially after the United States and China signed Phase 1 of the Trade Deal aimed at ending any further escalation of the war (Nagarajan & Greer, 2020). In the agreement, there are eight chapters that cover financial services, technology transfers, intellectual property, exchange rates, energy, trade in agriculture, manufactured goods, and services. Under the agreement, China has committed to increasing its import of American goods

to over \$200 billion within two years. Despite these positive gestures, trade tensions are set to continue in 2020 (Nagarajan & Greer, 2020).

e) China's Belt and Road Initiative (BRI)

China's BRI, announced in 2013, is a project to expand and rebuild Eurasian land and Silk Road trade routes. It seeks to revitalize import and export trade with China through the development of regional infrastructure in the country, and this focuses on the development and upgrade of infrastructure across the continents of the relevant countries. This increases the opportunity to export China's manpower, technology and surplus production capacity, which is a huge emerging market, including developing countries in Asia, Africa and Eastern Europe. An alliance is formed, and in the end, it becomes an opportunity to continuously expand China's political and economic influence. In July 2018, China has a foreign currency reserve of \$3.1 trillion, and is expanding financial support through AIIB and Silk Road Fund, which helps the internationalization of the yuan. This indicates that China's ultimate goal is to weaken the US dollar's dominance in the global economy, and China to rise from G2 to G1.

In order to expand its economic territory, it is pushing forward with three routes by land and two by sea. If the one-on-one project is successful, one huge market connecting Europe and Asia will be created. With a population of 4.4 billion (approximately 63% of the world's population) and a GDP of \$21 trillion (approximately 24% of the world's GDP), the economic corridor has the greatest growth potential. (OECD, 2018). Maritime transportation is known to take approximately 2.5 to three weeks, but by use of land, the duration can only take a maximum of 13–15 days, thus potentially saving a week. Transportation by land is more expensive when compared to other forms of transport, therefore the reason why currently the route has been reserved for the more expensive and valuable goods. Most of the goods transported by land as of now are the ones that are sensitive

to sea travel and also immune to the cold weather. The road's primary purpose is not to be a cost-efficient project but to ensure that China's western region is incorporated. BRI advocates say that this is a way for China to spend and improve its ties to emerging markets. However, the BRI's internal operations are closed and some programs have also been terminated because the host countries can not repay their loans.

The implications of a further weakening of the RMB would be a rise in the prices of all imports, the reduction in the real value of Chinese household income, the fall in private demand, an increase in goods and services production, and an increase in the already unsustainable reserves in the country that would fragile the economy of China and worsen the trade imbalances that exist. A permanent trade war combined with a rise in the US interest rate will be the worst-case case scenario. This will create very poor public sentiments and could result in a large-scale Chinese capital flight.

3.2 American Hegemon and Power Transition Theory

The US-led world order has continued for 70 years from the mid-20th century after World Wars I and II to the present. The United States has emerged as a world superpower through two world wars, which outperformed other countries in the world in terms of economic and military power. After the collapse of the Soviet Union, it reigned as the “only” superpower in name and reality. Nevertheless, figures indicating the defeat of the United States are increasing in economic, education, technology, and military data. In addition, reports continue to accumulate in the White House and in each department of the federal government saying that they are not sure of their victory in an all-out war with China in the future. Indeed, China has not clearly stated that it seeks to topple the US, but its actions clearly show that it is a rising power that is challenging the existing world order.

The historical context in which the theories of international system change were raised is the period when the hegemony of the United States relatively declined in the 1970s and 1980s. At the time, the US was relatively eroded by economic growth of Japan and Germany, and politically and militarily, the overwhelming position of hegemony declined due to the defeat of the Vietnam War and the equilibrium of nuclear military power with the Soviet Union. Against the backdrop of this period, theories related to the inevitable decline of hegemony were raised. A relationship between the ongoing trade war and American hegemon can be explained by Power Transition Theory, a theory developed during the previous power transition period.

The reason China is doing its best for this trade war is because this fight is not just related to economic gains. The trade war is a part of fights for hegemonic position, which will lead to who will take control of the world in the future. For the US, it is the same way. The United States is facing a sense of crisis that the gap with the United States may gradually narrow, if the trend of China's economic power and technological development, remains the same speed. Hence, it's difficult to make any concessions to each other, so a conflict between the two superpowers becomes inevitable. This supports the idea of Power Transition Theory; whenever there is a power transition, there is a war.

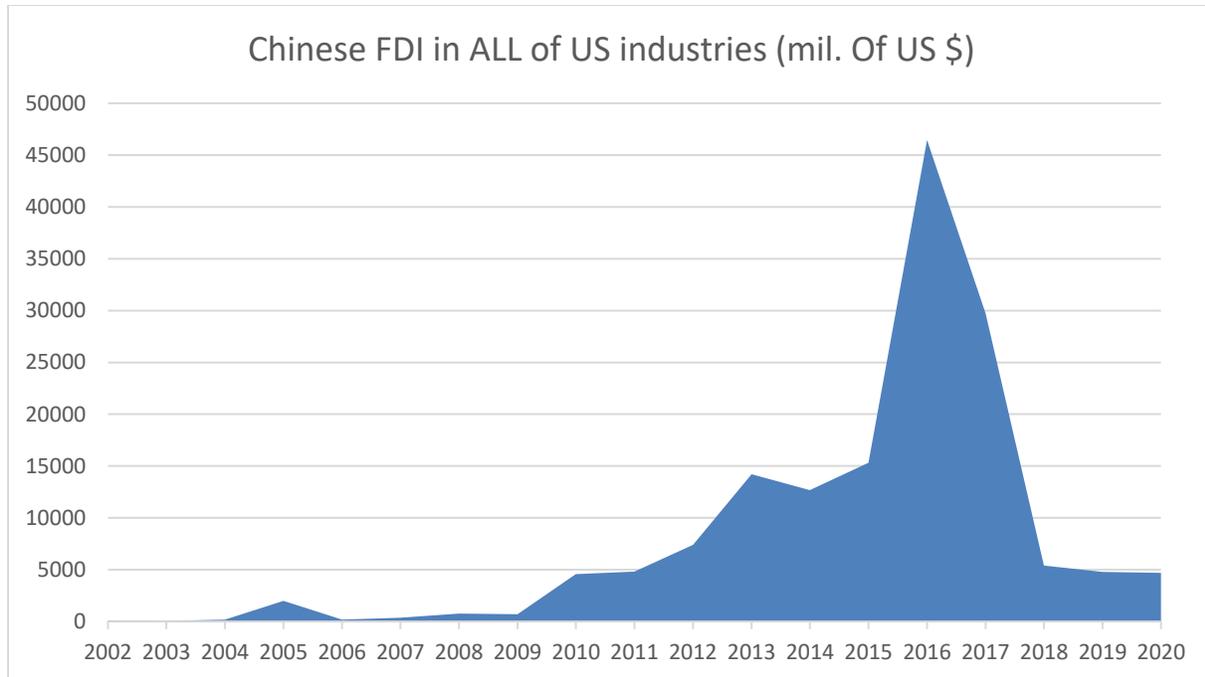
In fact, a trade war that started in 2018 continues to escalate in 2020, causing many US capitalists to tremble. However, they still need access to the domestic market in China. Consequently, a global hegemony looms on the horizon. Based on the PTT perspective, the Belt and Road Initiative is an indication that China is ready to challenge the US for world hegemony. However, the US is putting efforts to prolong its hegemony, including its imposition of the trade tariffs that have led to the present conflict.

It was Napoleon who first posited that China would astonish the world if and when it woke from its slumbers (Goh, 2015). Indeed, in the past 30 years, China has woken from backwardness to a critical player in global affairs. The possibility of transcendent Chinese power and wealth, along with the devaluation of American economic and political prestige, leads to the speculation that the Asian giant is emerging as a global hegemon which may eventually surpass the USA. Just like during the Cold War, some scholars believe that there will be a reemergence of a bipolar world (Layne, 2018). Also, it would come a time when there will be joint leadership from the two great powers.

3.2 Critical Analysis of the Trade War

a) Chinese Investment in the United States

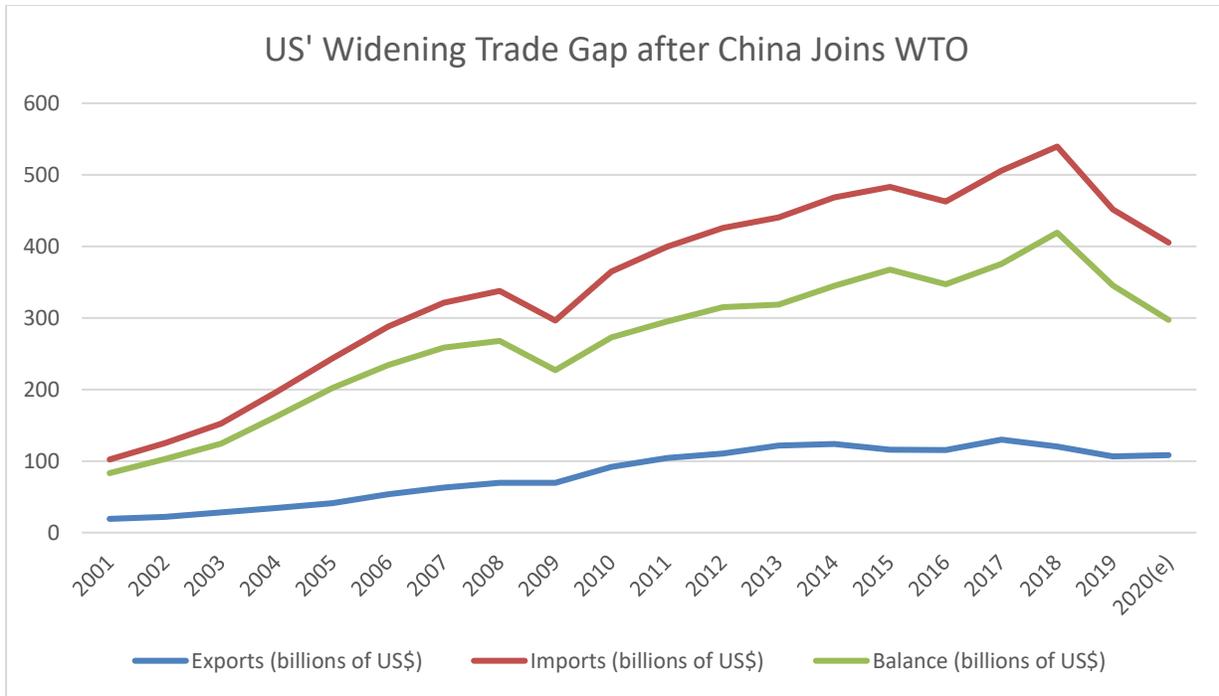
It is necessary to consider how China's economic rise contributed to the hegemonic fight. In the past 20 years, Chinese direct investment in the United States has exponentially increased. It was \$100 million by 2004, rose up to 1 billion by 2010, and by 2016 it had climbed to \$47 billion (Kirby, 2019). The dramatic growth was more evident from the years 2015 and 2017. At the time, the Chinese government had encouraged private investment in the US. Authorities in the US got concerned about the scale and speed of the investments. Chinese companies in the United States have employed more than 100 000 workers, and they have a turnover of billions of dollars annually. However, in 2017, China's investment in the US suddenly plummeted almost by 10 times. China set itself on a trade war part with the high growth rates and the trade surplus. Steinbock (2018) noted that the United States-led globalization is winding down while the one fueled by China is growing.



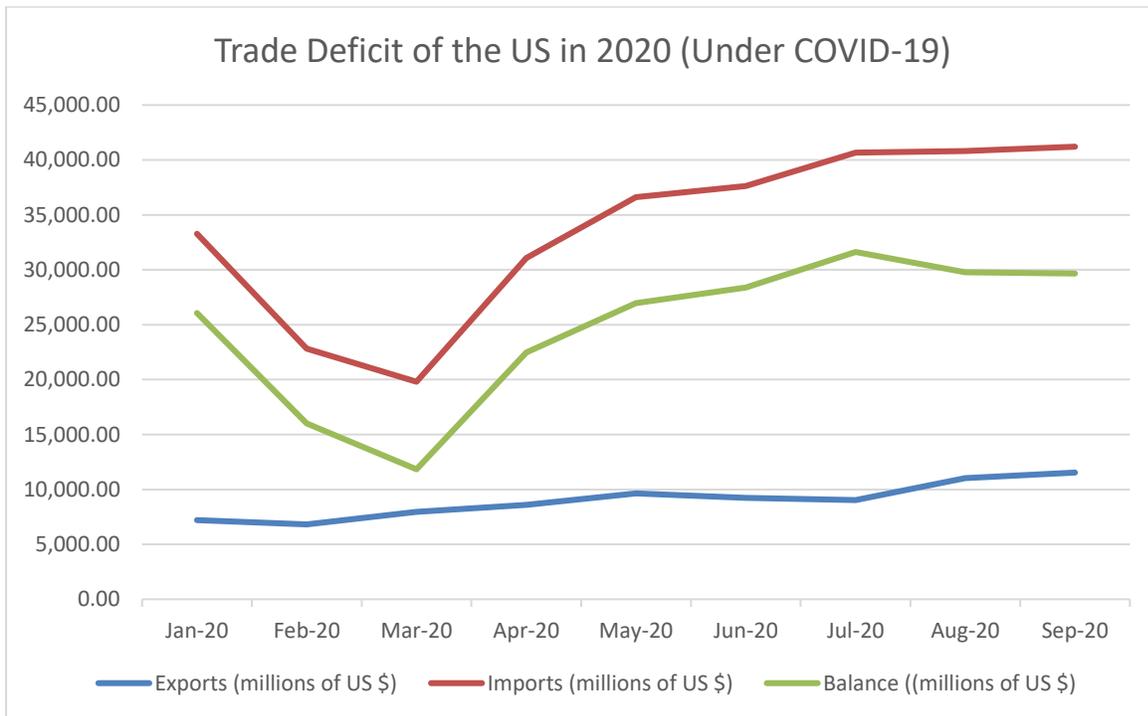
Graph 2: Chinese Direct Investment in the United States (2002-2020) (Source: *The World Bank*)

b) The Trade Deficit and FDI

The Office of the United States Trade Representative (2019) noted that in 2018 there was a total of \$737 billion in goods and services traded between the United States and China. The trade deficit stood at \$378 billion in the same year (The World Bank, 2020). Trade-in services with China for both imports and exports were estimated to be around \$80 billion. In 2015, the exports of goods and services to China supported around 900,000 jobs (Office of the United States Trade Representative, 2019). The United States foreign direct investment (FDI) to the People's Republic of China in 2017 was \$107.6 billion, while the one of China in the United States was \$39.5 in the same year (The World Bank, 2020). Since 2018, however, there has been a steep drop of FDI from China as China's overheated technology market started to be scrutinized and revalued. The graph below summarizes the merchandise trade with China.



Graph 3: Merchandize trade with China (Source: US Census Bureau)



Graph 4: Trade Deficit of the US in 2020 Affected by COVID-19

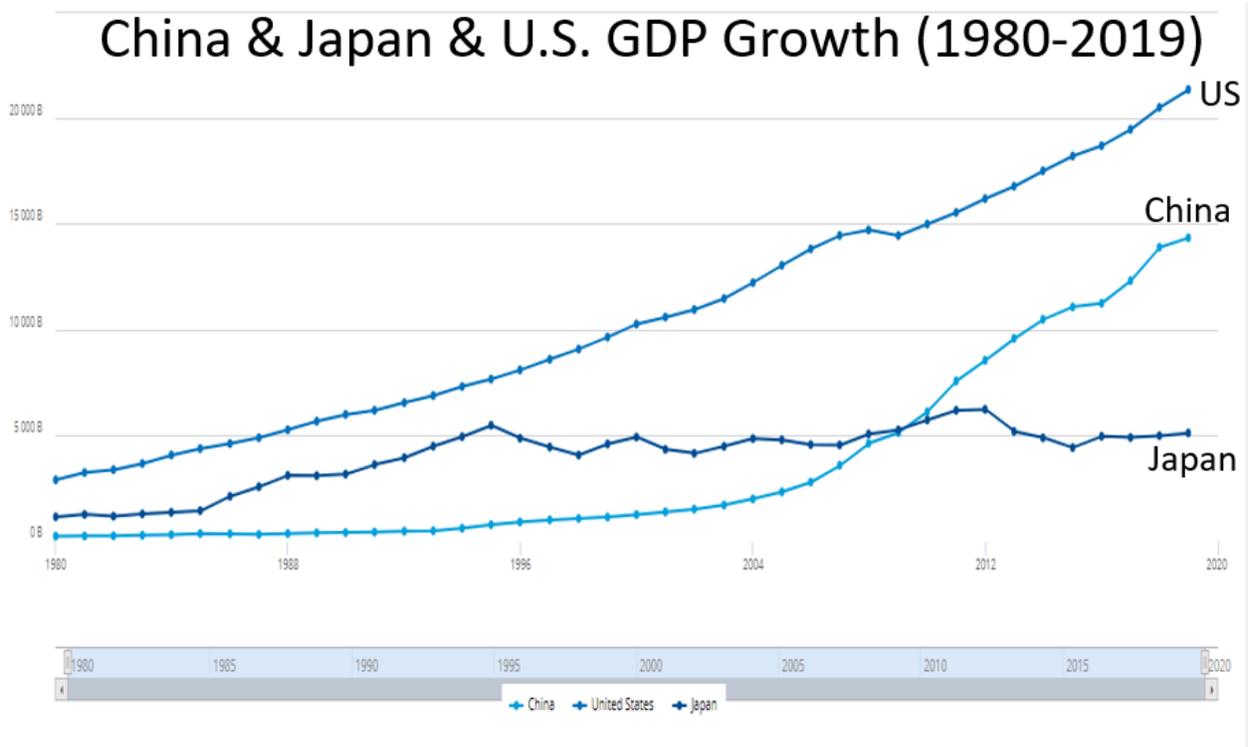
(Source: US Census Bureau)

The huge trade deficit between the two countries has resulted because exports to China were less than \$120 billion, while imports were more than \$540 billion. The biggest categories that the US imported from China included footwear, computers, cell phones, and apparel. Surprisingly, most of the imports are from American manufacturers who send their raw materials to China as a way of taking advantage of the low cost of labor. On the other hand, commercial aircraft, autos, and soybeans are the biggest Chinese imports from America.

One of the effects of the trade deficit is that it is leading to an increase in the US debt to China. Currently, China has bought up to \$1.1 trillion treasury notes, becoming the largest lender to the country. It is almost impossible for American companies to compete with Chinese manufacturers. That is why many of them are outsourcing as a way of reducing costs. The authorities in the United States consider that the trade imbalance will give China leverage, and this will greatly impact the global power dynamics. According to the Hegemonic Stability Theory, economic superiority and capability to support global public goods are critical components of the dominant power. As such, the United States fears that a more economically superior China would try to displace it from its hegemonic position. Hence, Trump's administration considered the trade war as a tool to derail the advance of China.

c) China's Rapidly Growing GDP Growth Rate

As mentioned above, the trade gap between China and the US is becoming larger and larger after China joined WTO. Ironically, the US actually contributed to China's entry to open market by helping them join GATT during Détente Era, but now, the US seems to fear the growth rate of China. In *Graph 5*, it is clear that China's GDP growth has been steeply rising, since China joined GATT. It is important to note here is that the US' deficit from trade with China has been slightly going down, since the Trade War began in 2018, as shown in *Graph 3*.



Graph 5: China & Japan & US GDP Growth from 1980 to 2019 (Source: World Bank)

d) Effects of the Trade War

Unilateral decisions by the US ever since 2018 have led to an increase in import tariffs for trading partners, more specifically China (Carvalho, Azevedo, & Massuquetti, 2019). As a result, the country's trade deficit has greatly increased with respect to the Asian giant. According to data from the United Nations Commodity Trade Statistics Comtrade (2018), the US-China trade deficit has increased to \$363 billion. This represents 42% of the total trade deficit for the United States. Yean, Yi, and Ann (2019) observed that the global impact of the current crisis might be limited. This is especially in relation to the US unilateral aluminum and steel tariffs. However, the EU and China may gain economically; as a result of the effect of trade diversion as a result of the Chinese retaliation. NAFTA countries will be negatively impacted by the US-China trade sanctions. The

Gross Domestic Products of both China and the US will be negatively affected by 1.2% and 0.3%, respectively.

In 2020, with an impact of COVID-19 outbreak in China in January, there had been less imports from China until March, which was when COVID-19 broke out in the United States. Since COVID-19 spreaded in the US, imports have been increased whereas exports are remaining the same. At this rate, the expected deficit of the US will be still lower than the last year, but because monthly deficit is continuously rising, the expected data could be implausible.

Table 2: US trade deficit with China (Source: Congressional Research Service)

| Year | Exports (billions of US\$) | Imports (billions of US\$) | Balance (billions of US\$) |
|------|----------------------------|----------------------------|----------------------------|
| 2001 | 19.2 | 102.2 | 83.1 |
| 2002 | 22.1 | 125.2 | 103.1 |
| 2003 | 28.4 | 152.4 | 124.1 |
| 2004 | 34.4 | 196.7 | 162.3 |
| 2005 | 41.2 | 243.5 | 202.3 |
| 2006 | 53.7 | 287.8 | 234.1 |
| 2007 | 62.9 | 321.4 | 258.5 |
| 2008 | 69.7 | 337.8 | 268.0 |
| 2009 | 69.5 | 296.4 | 226.9 |
| 2010 | 91.9 | 365.0 | 273.0 |
| 2011 | 104.1 | 399.4 | 295.2 |
| 2012 | 110.5 | 425.6 | 315.1 |
| 2013 | 121.7 | 440.4 | 318.6 |

| | | | |
|--------------|---------|---------|---------|
| 2014 | 123.7 | 468.4 | 344.8 |
| 2015 | 115.8 | 483.2 | 367.3 |
| 2016 | 115.5 | 462.5 | 346.9 |
| 2017 | 129.9 | 505.6 | 375.6 |
| 2018 | 120.3 | 539.5 | 419.2 |
| 2019 | 106.4 | 451.7 | 345.2 |
| 2020 (~Sep.) | 81.1 | 303.9 | 222.8 |
| 2020 (e) | (108.3) | (405.2) | (297.2) |

As shown from Table 2, the total amount of trade between China and the U.S. had been gradually increasing until 2018 (Congressional Research Service, 2019). In fact, China had been the largest exporter to the US market and was the third biggest importer (Congressional Research Service, 2019). However, it is important to note here that China's amount of import had stayed almost the same from 2011 to 2018, which caused enormously high amount of trade deficit for the US. Hence, Trump administration initiated the current Trade War, and the total amount of trade plummeted from \$660 billion to about \$500 billion within 2 years which decreased the trade deficit as well.

Despite the fact that the U.S. is now getting a lot less trade deficit from trade with China, it does not necessarily give a positive effect to customer market. As total amount of sales decreased forcefully and rapidly, customers cannot enjoy the variety of goods and sellers suffered from chaotic situation derived from dramatic tariff raise. In sum, it is a negative game for both states, but they are prolonging the inefficient fight. On the other hand, some scholars believe that the current war is about power and prestige in world politics. This view is held about the Silk Road,

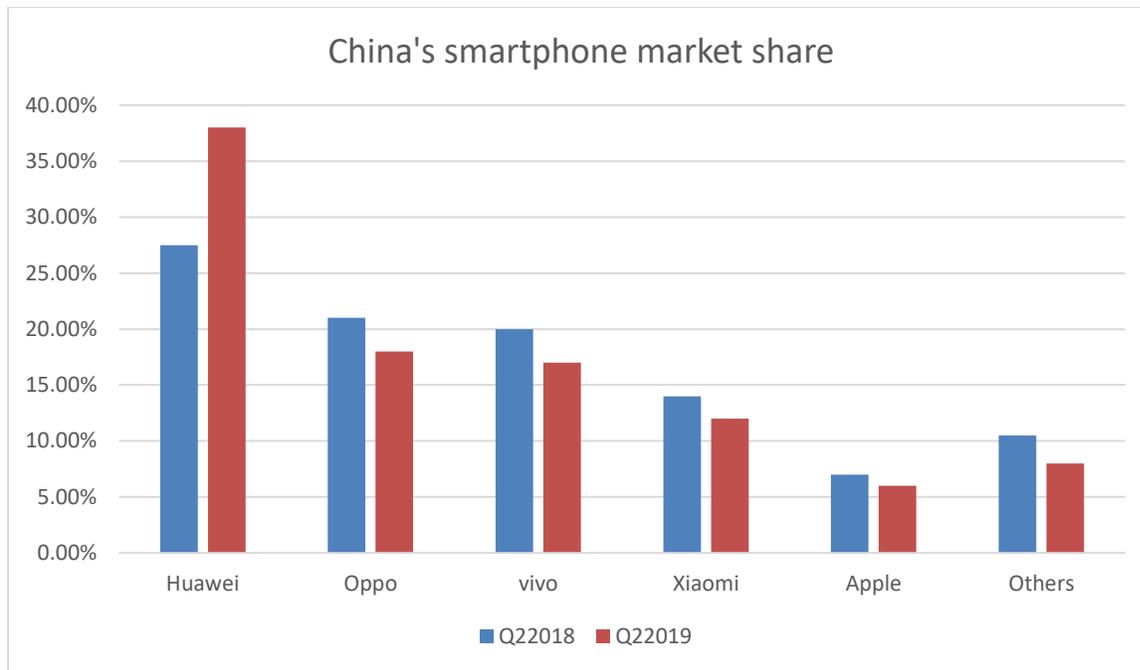
as it is explained in sections below. The main issue is that a country with the prestige governs the world by attracting followers, thereby playing a critical role in shaping international relations.

e) The Huawei Angle of the Trade War

For a long time, the United States has been suspicious of Huawei, accusing the tech company of spying for the Chinese government. This is the reason why a trade ban was issued to the company immediately after the trade war began. In May 2019, the US government banned the supply of advanced technology, such as artificial intelligence and 5G, to Huawei (Mascitelli & Chung, 2019). Trump has not made it clear whether US semiconductor companies would be allowed to trade with the company. Some analysts argue that China is getting ahead of the United States, especially with the 5G technology. As such, the move to ban Huawei from the American market is a way of slowing Chinese Advancement (Tayal, 2019).

The US trade regulations have negatively impacted both China and Huawei. For instance, Huawei has changed its strategy, and it has now focused on increasing its domestic share. It has taken some market share from rivals such as Apple, Xiaomi, Vivo, and Oppo. In particular, American-based Apple has suffered huge losses.

The Huawei ban had been unrelated to the Chinese trade war, Trump maintained. His behavior however proved otherwise. By the end of July, Trump lightened the Huawei ban and postponed Chinese imports with 10 percent tariffs of \$300 billion. China offered to buy agricultural commodities from America in response. Following Trump's latest tariff threat, China stopped buying US agriculture on August 9. It's not clear if US semi-producers will be given special licenses to trade with Huawei, which were issued in the light of easing the Huawei ban. In response, Trump said: "We won't be doing business with Huawei."



Graph 5: *China's Smartphone market share*

The cold war being waged in the tech industries is characteristic of the context for global dominance. China and the United States are the biggest internet consumers and they house the most innovative companies. The ban on Huawei is one way the Trump administration is using to level the playing field. It is clear that the two countries are now engaged in a full-blown technology war. Although the end is not clear, the consequences for the international community will be felt for many years. The issue's rawness will be more evident as China accelerates its spread of 5G technology worldwide. Therefore, the current conflict is not just a dispute about tariffs. The United States and China are competing for world dominance in future technologies, including the 5G, robotics, artificial intelligence, and high-speed mobile phone networks. Furthermore, it should be noted that next-generation networks are vital for future military operations.

3.3 The Political Economy of the Belt and Road Initiative

China's One Belt, One Road



Map 1: Summary Map of the Belt and Road Initiative

a) China's Interests in the Initiative

Currently, the two major powers of the world, the United States and China, are struggling for supremacy by developing different geopolitical strategies. China is building huge gas pipelines and railroads in Eurasia, signing a regional Comprehensive Economic Partnership Agreement, and leading the establishment of the Asia Infrastructure Investment Bank, trying to dominate the world islands that lead to Asia-Europe-Africa.

China's main interest in constructing the Silk Road in Central Asia is significant to secure its energy income and, at the same time, be able to diversify its energy supply. The many available resources and its proximity to China made Central Asia a perfect business partner. China gives investments to them as a form of repayment. A good example is Kazakhstan that has succeeded in entering the world market through China. It is now one of the country's leading recipients of

different raw materials, including minerals. Running of the Silk Road project through Iran and Turkey can help Central Asia gain a market for its grain production. Russia and China do not interrelate much since they have different trade practices between them, but Russia is focusing on the Eurasian Union, which will help it maintain the sphere of influence on the Central Asia states.

According to Kim and Gates (2015), China is back, after a couple of bad decades. China believes that for most of its history it was the wealthiest, largest, best governed, and the most advanced technologically in the world. It aims to regain the status, which, according to it, is the natural order of affairs. Initiatives such as the BRI show that China can achieve this endeavor within the century. It should be noted, however, that China does not follow the analogies of rising powers that had shallow histories, such as the USA, France, Germany, the USSR, or Japan. It does not have a messianic ideology or a doctrine of manifest destiny. It does not seem to believe in Darwinism or the glorification of militarism. China simply wants to conquer the world through economic and technological development, and the title of hegemony just comes with it.

b) Implications to the World Economy and Politics

Sevilla (2017) noted that China has been developing liberal economic policies since the 1980s. These have led to the new "demographic reality," in which there are more than 400 million Chinese who can be considered to be middle class. The reality has forced the authorities to change the foreign policy approach, especially towards countries in Asia due to their huge amounts of energy resources. Basically, the Silk Road can be considered as one way the Chinese government is trying to meet its energy demand, and also to get market for its products (Summers, 2016). Obviously, the initiative will create a new order in Asia and contain the influence of the United States. It will also signify the enlargement of China's influence in the region. According to Sevilla

(2017), the initiative will lead to economic and political gains for most countries in the Middle East and Southeast Asia.

As mentioned earlier, China pursuing one belt one road is a proof that China is interested in expanding its power among Eurasian countries. Considering the fact that land transport is still very expensive, there are many advantages to the New Silk Road. For instance, it is fast, thus reducing the shipping time. It will also diversify the transport system and reduce the overreliance on sea transport. Despite its economic loss, political benefit must be considered. By facilitating the transport among Eurasian Union, China can also gain cultural and geopolitical power, which are parts of softpower. To be more specific, the main argument advanced herein is that China is not looking for efficiency and convenience in this initiative, but rather as a way to establish a multipolar world order. This argument is supported by the fact that the modern silk road is driven by supply. Thus, the Belt and Road Initiative is a new geopolitical strategy by China to expand its sphere of influence and form novel economic cooperation, thereby advancing their market without the US and creating the new world order. Over time, the Initiative could threaten the very foundations of America's Post-war hegemony.

3.4 Sino-US competition for global hegemony

It is clear from the analysis provided herein that the trade conflict and the Chinese expansionism, as represented through the Belt and Road Initiative, point to the Sino-US competition for worldwide hegemony. This explains why the largest economies in the world are engaged in the trade war, even though it is negatively affecting their economies. To make sense of the trade war, two international relations theories have been used: the power transition theory (PTT) and the hegemonic stability theory (HST). The central argument of the thesis has been that the rapid rise of China and the declining hegemony of the US are the basis of the current crisis.

Although the United States indeed seeks to improve trade balance with its Asian rival, the conflict must be looked at through the lenses of power competition.

Kim (2016) observed that the threat posed by China to US hegemony in East Asia, and generally throughout the world, means that power competition will continue to intensify. As noted, military intervention is out of the options, and so the only way the two countries can wage war is through economic battles. Therefore, the current trade war may persist longer than it is anticipated. Also, even if the current conflict ends soon, similar crises will arise shortly, as long as the Sino-U hegemonic rivalry continues.

a) How China is Challenging US Hegemony

In light of the PTT, examples of China's challenges to the United States hegemony include the creation of the AIIB, the Belt and Road Initiative (BRI), and the Made in China 2025 Plan. The AIIB is a multilateral development bank led by China. The bank aims to increase China's voice in the global financial institutions and to champion the use of its currency as the global reserve currency. The "Made in China 2015" is an industrial development plan that aims to transform the country into a tech powerhouse that will dominate sectors such as new energy vehicles, aviation, information technology, and robotics (Laskai, 2018).

According to Madeiros (2019), the rise of China to challenge US interests corresponds with the increasing importance of Asia for the United States. Presently, the continent houses the 20 fastest-growing economies. It accounts for more than a third of the global GDP, and it generates two-thirds of the world's growth. Moreover, the region has 60% of the entire human population. Furthermore, seven of the ten largest standing militaries come from the continent (Madeiros, 2019).

Thus, presently, the continent is not an underdog in the global political economy like it was during the Cold War. Asia actively contributes to the development of global dynamics, including

those associated with power competition. Moreover, Asia actively participates in economic globalization. It is based on this growing importance of Asia that the behavior of China is of great significance to the United States and its allies. In 2017, President Xi outlined several measures, including an increased role of the state on the economy (Madeiros, 2019). The aim is to ensure national security.

A critical area that has emerged in the competition between China and the USA is governance. President Xi advocates a variant of nationalism that depicts Chinese exceptionalism. He aims to make China an international leader and for the Communist part to lead social, economic, and political governance at home. The United States is observing the developments, and it perceives the events in China as an emerging competition between ideologies and systems. Meanwhile, the United States foreign policy currently suffers an identity crisis due to Trump's skepticism about multilateral agreements, international institutions, and the internationalism of foreign policy by the USA.

b) The US efforts to maintain its Hegemony

For a long time, the response by America to the rise of China has focused on military capabilities, partnerships in the Asia-Pacific, and doctrines. The approach misrepresents the problem. It considers the military challenge more than the economic challenge. However, as this paper has shown, the threat from China is more economical than the use of force. Therefore, the United States out to consider the geoeconomic initiatives that China has put in place.

The Chinese Belt and Road Initiative is giving the Asian giant economic and political influence. This has made the United States express its concerns by taking measures that oppose it. For instance, the USA has engaged India and Japan in a plan to foster the development of infrastructure in the Indo-Pacific region. Trump's administration is trying to create a finance

mechanism that will counter the BRI. Likewise, the United States is opposed to the creation of the AIIB, as it views it as one of the mechanisms China is using to weaken the existing institutions such as the IMF, World Bank, and the Asian Development Bank (Smith, 2018). Also, the USA has been critical of the “Made in China 2025” plan. It considers it as a direct challenge to the hegemony. China aims to achieve full self-sufficiency by becoming a high-tech powerhouse. Currently, US tech companies dominate the industry (Laskai, 2018). Trump holds the view that the plan will disadvantage US investments. This is the reason why the recently proposed tariffs seek to impede the plan.

A trade war looks more ominous whenever negotiations between China and the United States break down. It causes stock markets to fall, and there could be irreparable harm to the economy. Few companies would desire an all-out trade war with China. Many companies in the United States depend on Cheap Chinese manufacturing or its domestic market. Apple, for instance, manufactures most of its products in China. If tariffs continue to increase, the company may not compete effectively with other companies, such as Samsung. Unfortunately, so far, efforts by Trump’s government to force China into a concession have not succeeded. In February 2020, both countries were still drawing up memorandums on key issues, including intellectual-property rights and cyber theft. However, Trump dismisses MOUs, noting that they mean anything.

c) Potential Power Transition

When China opened its doors to the world economy in 1999, it slowed down global capitalism, which had boomed for a long time after World War II. Chinese labor force added to the world economy served as an outlet for capitalist accumulation. Many companies rushed to the Special Economic Zones that mushroomed in China. Obviously, they wanted to benefit from cheap labor. Therefore, with the entry of China into the World Trade Organization (WTO), a symbiotic

relationship was formed with the United States. On the one hand, the US exploited Chinese capital, and it imported cheap goods. China also bought treasury bonds, thereby funding the US deficit. On the other hand, China developed its domestic industry through increased foreign-exchange reserves. Consequently, China loses as a byproduct of the United States capital's global expansion necessity.

In the light of the above argument, the tariffs set by Trump's government can, therefore be interpreted not just as a way of forcing China to open its market, but also to block its ascent. There is more to the fight, including supremacy battles for cybersecurity, AI, and 5G. If China becomes the first to advance the 5G, it will revolutionize the country's technological innovations. It is for this reason that Huawei has become the main target for Trump's policies. Should the current trend continue, with China leading the spread of 5G, it will control the most advanced communications network in the future. With a technological edge, the country will potentially develop its military capability.

What is happening can be explained as the Thucydides trap in which a clash between a rising power and an established hegemon is inevitable. China's technological development and explosive growth have put it on a collision course with the US for military, political, and economic hegemony. Nevertheless, China has not asserted its military dominance, despite its impressive technological advances and commercial expansion. China has not shown aggressiveness even in its backyard, where the United States has strong allies such as South Korea and Japan. There is also a heavy presence of the United States military. Furthermore, a global hegemony battle cannot be peacefully resolved, even if it is protracted for a long time.

In the face of the current crisis, there is a need to explore what is the next step. When Trump decided to blacklist Huawei, the move disrupted the Asian technological giant's products and

services. For instance, Google has suspended the Android operating system service for Huawei phones. By attacking Huawei, the US is seeking to create a way for its internet giants, such as Facebook and Google, to get to the Chinese domestic market. Based on this insight, one can understand that the ongoing trade war is more than just an economic dispute, and it is actually part of a struggle for global dominance.

In sum, America is using its political and economic leverage to prevent China from spreading its technology, thereby forcing the country to open its market. In the short-term, China will be more affected because it depends much more on exports to the USA than vice versa. However, the Asian giant has proven that it has countermeasures and resources that will block the American offensive. Should China retaliate against American companies, like Apple, it will not only reduce their sales in China, but it can also affect production. Should the situation escalate even further, China can sell its US bonds, catastrophically affecting the United States economy. The move will, however, be difficult to implement because it can sink the whole world in an economic depression.

Why would the US be threatened by a rising China? Historically, the declining great powers often fear that the rising nations would use a predatory strategy to push them down (Zhao, 2019). In many instances, the rising nations push the decliners down, as it happened when America dramatically limited the competition scope of the Soviet Union towards the end of the cold war. However, in rare cases, the rising nation can cooperate and even support the declining state. For instance, the United States backed Great Britain in the early 20th century. It is for this reason that China's rise is considered one of the most significant geopolitical development in the 21st century.

3.5 Realist and Neoliberalist's View on Trade War

a) Realist's View on Trade War

Realists look at international politics with a focus on 'power' rather than 'ideals or ideas.' From a realist's view, there is no harmony or cooperation but neverending conflict due to competition and confrontation among the international politics. This is because the realist theory presupposes that human nature tends to be innately selfish and competitive. That said, as the post-war Cold War was formed and even nuclear weapons emerged, the claims of realism gained strength.

The first characteristic of realist theory is that it sees the state as the "state" as the actor of international politics. Realists assume that countries are selfish and only pursue national interests. That's why countries make their ultimate goal of survival and seek security. This national egoism triggers a fight only when there is more gain than loss from the fight. However, the US-China Trade War is clearly a lose-lose game for both states, which means there will be no national interests for both countries. Their selfishness to pursue national interests will only bring about inefficient conflict to be prolonged.

Second, realist theory expresses the international system as "anarchy." To be more specific, state actors operate in an international community where there is no official central authority. Under this international anarchy system, national security depends on its own capabilities, such as natural resources, which leads to the pursuit of self-help. In fact, the US has started Protectionism and it is relying on its own resources.

Third, in anarchy, all countries try to increase their military power to protect security, which causes insecurity around the world. In anarchy, national security anxiety can be resolved by power balance. The only way to prevent opponent's intentions of war is to balance their strength. Thus, the characteristic of the power balance system is that no state has absolute control, and it

adjusts its national interests through limited wars rather than all-out wars. The US-China Trade war can be an example of limited war.

So, in summary, for realists, peace in the international community can exist when the balance of power between states is achieved. In other words, in realist theory, an international consensus that can balance power is important. Fortunately, The US-China Trade War has not been led to an all-out war yet, but if the level of security anxiety continuously increases without any progress of finding bargaining point, both states may start an all-out war

b) Liberalist's View on Trade War

Liberalism, which emerged with criticism of realism, is a theory that believes in the possibility of peace and cooperation in the international community. In other words, confrontation and competition among countries are inevitable in the international community, but this can be suppressed through dialogue and negotiations. Liberals view humans as self-centered, but respect each other with the ethics and reason that exist in humans.

In particular, liberalists believe that the state is not the most important actor in international politics, but instead, they value various non-state actors. To be more specific, they consider international organizations as the real actors in the liberal international order. The core proposition of liberalism is to balance conflicting interests. Conflicting interests from a liberal standpoint are complementary, and there is no irreconcilable conflict. Liberalists claim that while pursuing individual interests, they promote the interests of the international community at the same time, and that when promoting the interests of the community, the interests of individuals are also promoted.

So how can international cooperation and peace be achieved from the perspective of liberals? Liberal international politician Robert Keohane divides the method into three types of

liberalism. First, it is interdependent liberalism. Interdependent liberalism claims that variety of countries can be united and maintained at peace through free trade. Second, republican liberals believe that democracy guarantees peace. Republican liberals emphasize that there is no war between democratic countries. Third, liberal institutionalism emphasizes the role of formal and informal institutions in realizing liberal principles and goals (Keohane, 1984)

Thus, liberal institutionalists argue that organizations such as international organizations can create a national system governed by rules based on collective security and compliance with international law. Each of these three types of liberalism argues that peace can be created through free trade, democratization and international norms. Nevertheless, during the process of ongoing Trade War, both countries have been breaking the international norms by international organizations. For example, they are imposing higher and higher tariffs on each other and violating international climate agreements. This is against WTO norms, and in fact, the US has exited Paris Climate Agreement in Nov, 2020. Due to these selfish actions of both states, international community is suffering from the hegemonic fight.

To summarize, both realists and liberalists share the same idea in common to maintain peace in the international order. They both depict that cooperation between countries or international organizations is the key to keep peace. As said by liberalists, countries can earn something only when they pursue their own benefit and international community's gain simultaneously. In other words, they would only lose if they only pursue their own benefits. Hence, if international organizations lose their powers to distribute powers of the hegemon or newly emerging hegemon, not only the conflicting countries but also neighboring countries would play lose-lose game together.

CHAPTER FOUR: CONCLUSION AND RECOMMENDATIONS

4.1 Conclusion

While comprehensive Chinese capability in the last three decades has been increasing quickly, almost every observer inside and outside China agrees that China's and US capabilities remain immense, especially in terms of US military and technology well ahead of China. China's economy may already have been the largest in 2014, but China's economic efficiency appears to be a big weakness for Beijing. Thus, China's direct challenge to the USA will be a significant error, considering the wide capability difference between the two. Although it would also be a major mistake for China to threaten the US one day if China's extensive capability were to catch up with the USA, because both economies would be more closely intertwined by this time, establishing a situation of reciprocal dependency that benefits both governments.

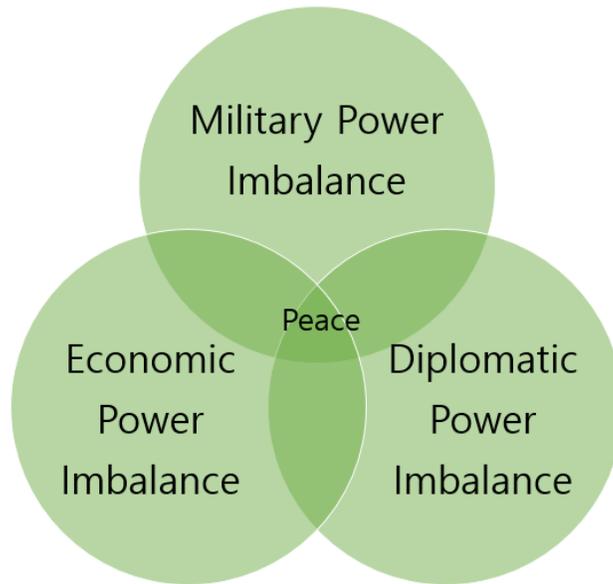
China also has limited goals, aside from limited capacity, that many scholars of the United States have not completely grasped. China's grand plan is, it's true, to realize "China's dream," a dream which will restore China riches, glory, and strength, but that doesn't imply that China wants to become a hegemon in Asia or that it wants to establish a Sinocentric tributaries structure that all smaller states have to follow the orders of China. Perhaps such assumptions remain in the US since many US observers have unaware of ultra-realistic thought and assumed that states are actively seeking control and influence. But since the end of the Cold War, the nature of world politics has shifted fundamentally, making it unlikely or ineffective any real chance for world conquest. Essentially, the costs of hegemony outweigh those of hegemony, due to growing globalization, nuclear weapons, and increasing interdependency between major powers, in this modern age in

foreign political politics. The Chinese leaders recognize this modern and modified world relations system and have agreed not to pursue hegemony in this new age based on their evaluations.

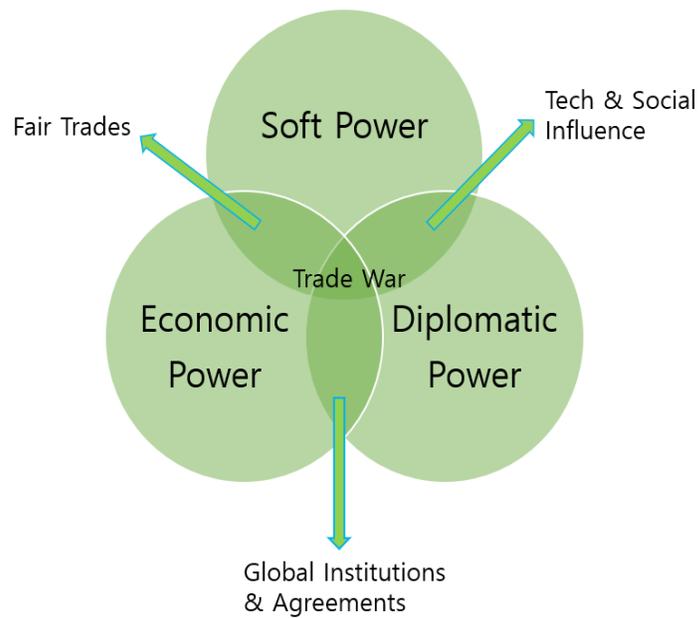
China might also not be willing to become hegemon because China attempted to join the World Trade Organisation (WTO) in the spring of 2000. It has just been accepted by the US House of Representatives for the normalization of commercial ties with China. The vote was a US support for China's membership, and Chairman Bill Clinton, a leading supporter of China's offer, articulated his economic and strategic aspirations of the relationship between the US and China. Likewise, China also wanted to join the WTO because it would give China access to new business partners and better rates, increase domestic opportunities for higher living conditions and provide China with a place on the table in a globalizing world. The United States also needed something: to get China on board with a liberal-democratic order led by the United States and to step away from its communist model. However, it didn't work as the US anticipated. The US ironically acted as a catalyst for letting China grow big enough to threaten its own position of hegemony.

This paper draws insights on the reasons for diplomatic conflicts to include changes in trend of war and Hegemon and rising power, as depicted in the illustrations below. The new trend of peace excludes military power imbalance because military power imbalance is no longer as important after invention of nuclear weapon made it difficult to determine which country is stronger, as suggested by Balance of Terror Theory. Instead, a new contributing factor is Soft Power, which means level of influence exerted by information science, culture and art. That's why the US is tackling on China's violation of intellectual property rights, Chinese social media app TIKTOK, and top tech company, Huawei.

a) Changes in Trend of War (Power Transition Theory)



(In the Past: Power Transition Theory)



(New Trend)

b) Hegemon and Rising Power (Implications of International Relations Theories)

| | Balance of Power Theory | Power Transition Theory | Hegemonic Stability Theory | Kindleberger & Thucydides Trap | Balance of Terror |
|----------------------|-------------------------|---|---------------------------------------|--|---|
| Conditions for Peace | balance of power | Imbalance of Power | Distribution of power of Hegemon | Public goods | Power to destroy each other by Nuclear Weapon |
| Conditions for War | Imbalance of Power | balance of power (other states not satisfied with the newly emerging hegemon) | Fail to satisfy Hegemon's role | Rising Power Fail to provide Public goods | Political Conflict |
| Source of Power | Bonds with Allies | Industrial Capabilities | International Political Economy (IPE) | Approval of neighboring countries as a hegemon | Nuclear Weapon |
| Goals | Maximizing Power | System Support / System Destruction | Open international market | Maximizing Power by avoiding Hegemon's role | Having undefeatable power |
| Progress | Not applicable | Limited War | Failed | Failed | Limited War |
| (Potential) Outcome | Not applicable | All-out War | Fight for Hegemonic Position | Fight for Hegemonic Position | Nuclear War |

The chart above summarizes insights derived from theoretical framework. First, Balance of Power theory is not applicable in this trade war because it only works in anarchy international system, and the trade war was actually triggered by power balance, not power imbalance. Second, Power Transition theory shows that a fight is inevitable whenever there is a power transition. The current progress is still limited war, not yet all-out-war. Third, Kindleberger and Thucydides Trap theories show that the US and China have already fallen into these traps as they are repeating the past. The US is now repeating the same mistake they made, which brought about World Great Depression in 1929 because they are feeling threatened by China's rising power and falling into these traps again. Lastly, Balance of Terror shows why a physical war is not likely to happen now, but simultaneously, potential outcome can be a disastrous nuclear war. Because of nuclear weapon, the US and China are hesitating to fight physically. However, if this trade war continuously worsens, a potential outcome of a major collision is just co-destruction, either by economically or physically. Thus, finding agreement points is needed soon.

According to PTT, when there is a power transition of liberal international orders between the hegemon and rising power, a war occurs (Organski, 1958). In fact, the Trade War started during the process of power transition. Thus, it's vivid that a fight is inevitable during the process of hegemonic power transfer. Also, in the recent years, since the US gave up on providing public goods again, this trade war has been triggered. So, it's clear that the world needs a hegemon, as hegemonic stability theory says.

Throughout the research, it has been depicted that China's gradual growth could possibly take the US' hegemonic position. Since they joined the world's free trade market, not only have it achieved the second highest GDP, but also state of the art military and technological power have been achieved.

The current trade war between the two great powers can be considered as a new kind of Cold War. A trade war is often unconventional since it does not necessarily involve military power. However, it has huge implications on political, financial, and monetary landscapes. It can lead to shutting down of companies, currency crisis, unemployment, depression, and deglobalization. As observed in the discussion, President Trump cannot achieve his goals through the trade war. Based on history, American threats will not work on China since it has never conceded to any trade threats previously.

The data utilized herein, including the GDP and GNP figures, trade deficits, trade surplus, and the FDI, all lead to the conclusion that China has threatened the American hegemony. Besides, Chinese projects, such as the Belt and Road Initiative, threaten the foundations of America's post World War Two hegemony. The Modern Silk Road serves as an example of the transformative geopolitical implications that result from the rise of China. The massive project that seeks to connect Asian and European countries will have political and economic consequences.

China has grown too big for the US to endure. Any increase in tariffs escalation can lead to retaliatory protectionism. Eventually, trading partners may be forced to choose sides. There is a

big possibility that the hostilities, if not contained, could lead to a new cold war. The new cold war will have two camps who, although integrated thoroughly, but separated from each other. There could also be parallel trade flows, communication, and cyberspaces. Besides, an incident in a third country can form a perfect excuse for a proxy war. The ultimate goal of the United States is to put China in its place as a second-class country. It also wants to force the country to open its domestic markets so that American corporations can benefit. China is not willing to do this, and the analysis done herein has shown that the Asian giant is ready for a fight. Should it challenge the US's hegemony, there will be fire and fury, and the trade war only serves as the beginning.

Another factor that makes the current trade war to be significant in the hegemony battle is the declining value of nuclear weapons. During the cold war, nuclear weapons were at the forefront of relations between the US and the Soviet Union. China has not put a lot of focus on its nuclear capabilities, and instead, it has been developing its conventional military. However, this can change. There is a possibility that China will develop its nuclear capabilities as a way of ensuring damage limitation and deterrence. This paper, therefore, foresees troubled times ahead. The two nations are currently pushing their relationship competitively. There is no guarantee that a new US president will change the trend or that the Chinese leader will shift policy. Since the drivers of the present crisis relate to material interests, identities, and capabilities, the situation will persist for a long time. As such, the superpowers are now getting to a new phase where competition may risk getting into a confrontation. . If the tension between them is not alleviated, there will be an explosion, conflict, or even all-out war.

When he started the conflict in 2018, Trump noted that "trade wars are good and easy to win." Apart from the trade war, there have been other recent incidences which show that the situation is escalating. For instance, in September 2018, a Chinese warship and an American

destroyer nearly collided in the South China Sea. Later that year, a Chinese foreign-intelligence agent was extradited from Belgium to the United States. In 2019, the US blacklisted various Chinese technology firms. At the same time, China denied access to the American congressional delegation. Vice President Mike Pompeo observed that the United States and its allies would ensure that China retains its proper place in the world. The deterioration of the relationship in the recent past will feed the image, on both sides, that the other is a permanent enemy. If the tension between them is not alleviated, there will be an explosion, conflict, or even all-out war.

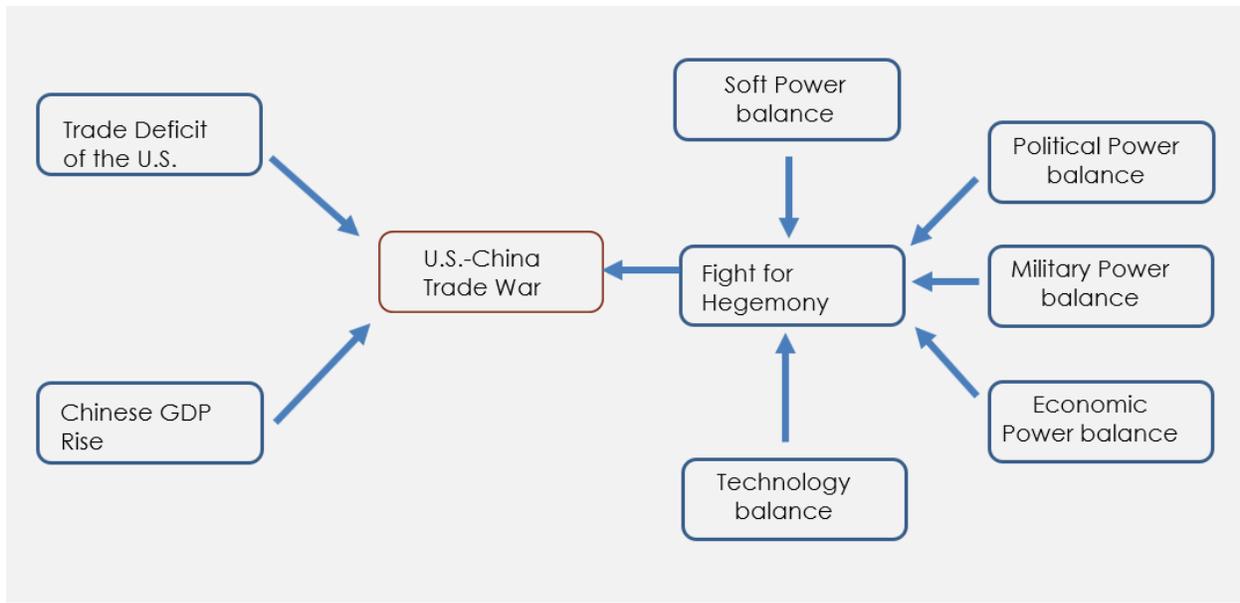
The trade war can not accomplish what President Donald Trump wishes to achieve and it could be stopped by solving and enforcing long-term and successful strategic communications structural trade imbalances. the US current account deficit can not be substantially diminished or reversed by the trade war. Capital accounts will push the current account and the surpluses of the US account continue due to the sublime capital markets and international surplus savings influxes of the world. Chinese technological development is almost difficult to stop. Chinese gross production, especially the salaries of skilled employees, can be enhanced by the technology growth that is crucial to China's much-needed consumption-driven economy.

The real question now is what can cause an actual war between the United States and China. Consider the case of China invading and occupying Taiwan. The Island is a significant US partner and arms customer. Would the United States come to the defense of the country and risk a world war? Another consideration is the Senkaku Islands, which China has been disputing with Japan. In case China asserts its control of the Islands, will the United States honor its commitment and defend Japan as an ally? These are just some of the scenarios for a full-blown war, but there is no guarantee that the United States could use force against China.

As noted herein, China's rise is coming at a time of deteriorating global governance. Ever since 2014, the quality of global governance has declined. The United Nations, the International Monetary Fund, and other multilateral institutions have failed to overcome challenges such as slow economic growth, Russia's seizure of Crimea, climate change, and mass migration. Presently, the European Union faces major challenges, including a potential break-up and the impact of the Brexit. The thesis has noted that the United States has been rapidly declining as a global hegemon. The analysis shows that China has rapidly arisen, with its annual gross product averaging above 10% for more than 10 years. At the same time, the USA's growth has been less than two percent. Some scholars have observed that China's economy has already surpassed that of the United States.

The Hegemony Stability Theory posits that there ought to be a f between the hegemon and the rising power. The current situation, as evidenced by the trade war, characterizes a situation of instability. As noted in the preceding discussion, China is the country with the greatest trade surplus with the United States. The main driver of success is a foreign direct investment which has upset the trade balance with the United States. The USA-China trade war, therefore, was a move by the United States to prevent the Asian giant from taking advantage of the USA and toppling it from the global hegemonic position through economic means. Therefore, the current trade war is driven by hegemonic fears. That is to say, as the political and economic influence of China grows, the USA fears that its power will also increase. Hence, they need to assert global dominance by deterring China's claim for hegemony.

c) Factors Attributing to US-China Trade War



Various factors have contributed to the trade war between China and the USA. The ones highlighted herein includes the Trade imbalance and Chinese Investment in the USA. For a long time, trade between the two nations has benefited China at the Expense of the United States. In turn, the trade war is a characteristic of the fight for Hegemony. The war may not end soon because the underlying causes are political, not economic. It is for this reason that the Belt and Road Initiative was considered as an element in this study. Clearly, two nations' political, economic, technological, and military power gap is becoming balanced, and this would lead hegemonic position to be at stake whether they want or not.

Ultimately, when a hegemon fails to provide global public goods after the power transition, it may not only threaten the world peace but also cause world panic, as explained by Hegemonic Stability Theory and Power Transition Theory. Indeed, a country cannot just call itself a hegemon when it still lacks capability to fulfill other countries' needs to balance international order. In order to avoid all-out war, it is important for the two nations to rather remind themselves that it's a lose-lose game for both. They have already fallen into Kindleberger & Thucydides Traps and been repeating almost exactly the same process of disastrous past. An

explosion is just around the corner, but due to aforementioned international relations theories, a fight is unfortunately inevitable. Persisting with retaliating tension would only end up being co-destruction, so the two nations must admit this inevitable fight and to find ways to co-exist before exploding with all-out-war.

As analyzed throughout the paper, the essential reasons for the ongoing Trade War are because the two nations are failing on the conditions for peace, derived from Hegemonic Stability theory and Kindleberger & Thucydides Trap theories; neither of them are willing to provide public goods because they fear the rising hegemon, and the world is missing a role of hegemon to stabilize the international order. Hence, in order to avoid repeating the disastrous past, such as all-out-war or Great Depression, the two theories' keypoints for peace must be studied. That is to say, the two nations must stop being obsessed with hegemonic position and retaliating against each other because of fear, and one must compromise to fulfill the role of a hegemon by providing global public goods.

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〈국문초록〉

미중 무역전쟁에 대한 비판적 분석: 위태로운 패권다툼

본 논문은 기존 국제관계 이론들을 분석하여 최근 국제 무역 관계에서 이슈가 되고 있는 미중 무역전쟁이 어떠한 형태로 진행되고 있는지와 앞으로의 방향에 대해 논의한다. 오르간스키의 “세력전이론”에 따르면, 국제 시스템에 있어서 지배국가와 도전국의 힘의 차이가 클수록 질서가 안정되고, 반대로 힘이 균등해질수록 전쟁이 일어날 가능성이 커진다고 한다. 하지만, 핵무기의 발명 이후 핵보유국들이 서로 상대방을 완전히 멸망시킬 수 있는 능력이 생겼기 때문에, 세계 2 차전쟁과 쿠바 미사일 사태 이후 물리적인 전쟁은 되도록 피하려는 상호억제체제의 양상이 지속되었다. 이를 정치심리학적 용어로 “공포의 균형”이라 한다.

이렇듯 미국과 중국은 전세계를 파멸로 이끌 수 있는 물리적 전쟁은 피하고 있지만, 패권국으로써 국제정치 또는 국제경제를 안정시키기 위해 제공해야하는 공공재를 공급하는 것을 꺼려하고 있다. 실제로 기존의 절대적 패권국이었던 미국은 국제보건기구(WHO) 와 파리기후협약을 탈퇴 하는 등 공공재를 제공하지 않으려는 행보를 보였다. 또한, 세계무역기구(WTO)의 국제규정을 무시한채 중국의 여러 제품들에 관세를 폭탄적으로 부과하였고, 이는 무역전쟁이라는 이름으로 국제무역에 세계적인 영향을 끼쳐왔다. 이는 패권국이었던 미국이 급격히 떠오르는 중국을 견제하면서 생기는 현상이다. 본 논문은 이러한 현상들을 국제학적 이론인 “투키디데스 함정” 과 “킨들버거 함정” 이론에 비교하여 논의한다.

결론적으로 미중 패권다툼은 주변 국가들과 자국민들에게 정치적으로나 경제적으로 큰 혼란을 가져왔고, 이는 세계는 패권국이 존재해야만 국제정치와

국제경제가 안정적이라고 논하는 “패권안정론”의 법칙이 성립된다. 킨들버거가 1930년대 패권국의 부재가 대공황의 세계를 만들었다고 설명했듯이, 현 세계에서도 미국은 패권국의 리더쉽을 잃어가고 있고, 그 부재로 인한 국제정치적 갈등이 심화되고 있다. 하지만, 앞서 세력전이론에서 설명하였듯이 패권국의 교체과정에서 패권국과 도전국의 다툼은 불가피하다. 이렇듯 불가피한 갈등은 피할 수 없지만, 패권국들이 과거와 같은 실수를 반복하여 국제질서가 극단으로 치닫아서 총력전이 발발한다면 전세계적 파멸을 불러올 수 있다. 따라서, 본 논문은 지속적으로 악화되는 미중 패권다툼을 국제정치학적으로 비판하고, 과거에 패권국의 부재로 인한 혼돈이 반복되지 않도록 대책을 논의한다.

키워드: 미중 무역전쟁, 세력전이론, 패권안정이론, 일대일로, 총력전

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