

Research on the Development of the International Economic Order Under the Impact of China-US Trade War Strategies and China's Response Plans

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Abstract. This study aims to explore the impact of the China-US trade war on the international economic order and its consequences. The research examines the background of the trade war, its global economic implications, and the stability of the international economic order. A particular focus is placed on China's response strategies in the face of the China-US trade war, including multilateral cooperation, industrial upgrading, and financial market liberalization. This research seeks to provide valuable insights for maintaining the stability of the international trade order and the future development of China.

Keywords: China-US Trade War, International Economic Order, Global Economic Impact, Chinese Response Strategies.

1. Introduction

As globalization deepens, international trade increasingly drives global economic development. Recent U.S.-China trade tensions have garnered widespread attention. The escalating trade war has had significant implications for the international economic order, prompting discussions on trade policies, the global value chain, and financial markets. This study explores the strategic impact of the U.S.-China trade war and China's response strategies to provide insights for international trade stability and sustainability.

The U.S.-China trade war began in 2018 with successive tariff impositions, creating a tense global trade environment. It expanded across sectors, including manufacturing, technology, and agriculture, prompting a reevaluation of the global supply chain as enterprises adjusted production and supply strategies.

This trade war, involving the world's two largest economies, profoundly affects not only these nations but also the global economy. Understanding its impact on global trade, cross-border investments, and financial markets is crucial for policymakers and economic decision-makers. Maintaining international economic order stability is vital for all nations' economic development. This research analyzes the U.S.-China trade war's impact on the international economic order, focusing on China's response strategies like multilateral cooperation, industrial upgrading, and financial market openness, providing strategic recommendations for China's future development amid these challenges^[1].

2. The Impact of the U.S.-China Trade War on the International Economic Order

2.1 Impact on the Global Trade Landscape

The U.S.-China trade war has had far-reaching consequences for the global trade landscape:

U.S. tariffs on Chinese goods prompted businesses to reconsider supply chain strategies, potentially relocating production to other countries. This triggered supply chain restructuring and introduced instability into global trade. The dispute raised doubts about the effectiveness of the World Trade Organization (WTO), increasing pressure to reassess international trade rules. Some nations favor bilateral trade agreements over multilateral systems. Market uncertainty, heightened

stock market volatility, and investor unease impacted global financial markets, capital flows, and currency exchange rates. Central banks worldwide adjusted monetary policies. Since the trade war outbreak, global trade growth rates consistently declined, with 2019 and 2022 nearly stagnating. Export-dependent nations faced pressure, impacting the global economy. The trade war prompted adjustments to international trade rules, such as strengthened foreign investment reviews and negotiations among international organizations, reshaping the global trade landscape^[2].

In summary, the U.S.-China trade war poses significant challenges to the global economy and international trade system. Collaborative efforts are needed to address these issues.

2.2 Impact on Cross-Border Investment and Value Chains

The U.S.-China trade war significantly impacted cross-border investment and global value chains:

Escalating tariffs and trade barriers raised operational expenses for multinational corporations. To mitigate these costs, some firms considered relocating their production bases from China to other countries. However, this process is resource-intensive and introduces supply chain instability. The trade war heightened political risks associated with cross-border investments. Several countries adopted more conservative foreign investment policies, citing national security and industrial competition concerns. This shift could subject investment projects to scrutiny and potential obstacles. Global value chains faced disruption as companies reassessed their international partnerships, potentially restructuring these chains and impacting production and supply processes. Recent data shows a decrease in global foreign direct investment (FDI) due to the trade war. According to the United Nations Conference on Trade and Development (UNCTAD), global FDI dropped by 15% from 2019 to 2022, marking the first such decline in over a decade. Multinational corporations' lingering apprehensions about the trade war led to reduced investment activities^[3].

In summary, the U.S.-China trade war had far-reaching effects on cross-border investment and global value chains, including cost increases, heightened political risks, and value chain restructuring. These impacts carry significant implications for the global economy and supply chains, necessitating collaborative efforts between multinational corporations and governments to address them.

2.3 Turbulence and Risks in the International Financial Markets

Global stock markets experienced heightened uncertainty. Notably, the U.S. S&P 500 index saw sharp declines during trade war escalations, followed by rebounds when de-escalation news emerged. Poor overall performance in global stock markets in 2018 and 2019 was partly attributed to trade war concerns. For instance, in December 2018, the S&P 500 index dropped by 9%^[4]. In 2022, the resurgence of the COVID-19 pandemic led to another significant downturn. Currency markets witnessed volatility, particularly due to the Chinese yuan's depreciation against the U.S. dollar, causing international concerns. Some countries intervened to stabilize their currencies, resulting in instability among multiple currencies and complicating international trade. Concerns over uncertainties led some investors to seek risk mitigation, resulting in substantial capital outflows. Emerging market countries faced capital flight, impacting their currencies and financial markets. Meanwhile, yields on government bonds in developed countries decreased as investors sought safe-haven assets. These trends indicate that the trade war disrupted capital markets.

the U.S.-China trade war's impact on international financial markets involved stock market volatility, currency exchange rate fluctuations, and capital flow challenges. These issues carry implications for the global economy, monetary policies, and financial stability across nations. Consequently, resolving trade war-related problems necessitates international cooperation and coordination to maintain stability in international financial markets.

3. Evolution and Adjustment of the International Economic Order

3.1 The Rise of Emerging Market Economies

The U.S.-China trade war significantly impacts emerging market economies. China, as a leading emerging market nation, has steadily gained influence due to its second-largest GDP and increasing exports, making it a major global commodity exporter. This reflects China's growing role in global trade, positioning it as a key player in the global economic order.

Countries like India, Brazil, and South Africa are also gaining importance, characterized by high economic growth rates and large markets that attract multinational investments. India, as one of the world's largest democracies, possesses a substantial population and a growing middle class, making it a crucial global consumer. These nations have increased their influence in international trade negotiations and the multilateral trade system, leading to a reassessment of global trade rules.

Additionally, emerging market nations are increasingly engaging in regional economic cooperation. The BRICS countries (Brazil, Russia, India, China, and South Africa) have established cooperative mechanisms to enhance economic ties and political collaboration. This regional cooperation is expected to play a more prominent role in the international economic order, fostering global trade and investment growth^[5].

The U.S.-China trade war has expedited the rise of emerging market economies, profoundly impacting the international economic order. These nations have ascended in their global trade roles, prompting a reconsideration and adaptation of global trade rules. Concurrently, it has reinforced regional economic cooperation among emerging market nations. The international community must balance the interests of all parties to address this evolving economic landscape and maintain stability in the international economic order.

3.2 Trends in Regional Economic Cooperation

Regional economic cooperation is expanding globally and has become a crucial component of the international economic order. Notably, the Regional Comprehensive Economic Partnership (RCEP) in the Asia-Pacific region, with 15 member countries, encompasses over 30% of the global population and nearly 29% of the world's GDP. This extensive free trade area aims to enhance liberalization in trade, investment, and services, offering economic growth opportunities to participating nations.

Additional regional economic cooperation agreements are evolving as well. The European Union-Japan Economic Partnership Agreement (EPA), effective since 2019, has strengthened trade ties between Europe and Asia. In North America, the United States, Canada, and Mexico replaced the North American Free Trade Agreement (NAFTA) with the United States-Mexico-Canada Agreement (USMCA). These agreements enhance international economic cooperation and mitigate global trade landscape uncertainties. Regional economic cooperation reflects some countries' response strategies to external shocks, aiming to counter risks posed by global trade uncertainties through closer economic partnerships. These agreements provide participating nations with more trade and economic growth opportunities while promoting diversity and stability in the global economic order.

Regional economic cooperation is an undeniable trend in the international economic order, improving trade and economic performance for participating countries and offering effective tools to address global trade uncertainties. Therefore, the international community must closely monitor and support these cooperative efforts to maintain stability and sustainability in the international economic order.

3.3 Restructuring and Challenges of the Multilateral Trade System

The China-US trade war has prompted a reevaluation and challenges for the multilateral trade system. The reform of the World Trade Organization (WTO) is central to restructuring this system. Member countries are negotiating updates to enhance the organization's rules and procedures,

addressing long-standing issues like dispute settlement efficiency, transparency, and treatment of developing nations. The WTO is also advancing the digital trade agenda to adapt to the digital age.

Countries are increasingly emphasizing regional and bilateral trade agreements, reducing the multilateral system's influence, a trend observed globally in Europe, Asia, and the Americas. While these agreements enhance trade between nations, they may prioritize regional interests over global ones, challenging the multilateral system. Global trade uncertainties and political risks threaten system stability, with some countries pursuing unilateralism and protectionism, raising the risk of trade conflicts. International cooperation and dialogue are essential to address these issues and maintain the multilateral trade system's effectiveness.

The multilateral trade system faces diverse challenges and reform needs, including WTO reform, strengthening regional and bilateral agreements, and addressing global trade uncertainties and political risks. Collaboration within the international community is crucial to ensuring the system can adapt to the evolving international trade landscape, contributing to global economic prosperity and stability.

4. China's Strategies in Response to the Impact of the China-US Trade War

4.1 Multilateral Cooperation and Diversification of Trade Partners

In addressing the impact of the China-US trade war, China needs to adopt proactive strategies to uphold the stability of the international economic order and safeguard its own development interests. This section will elaborate on China's approaches, focusing on two aspects: multilateral cooperation and diversification of trade partners.

4.1.1 Expanding Multilateral Trade Partnerships

Following China's entry into the World Trade Organization (WTO), its exports have seen significant growth. According to China's General Administration of Customs, merchandise exports were \$513.9 billion in 2001 and surged to \$2.65 trillion in 2019, reflecting active participation in the multilateral trade system and export growth through cooperation^[6].

The "Belt and Road Initiative" (BRI) promotes global infrastructure development and trade cooperation. China's National Development and Reform Commission reports that by the end of 2020, China had signed 197 cooperation agreements with countries along the BRI route, with cumulative investments exceeding 4.3 trillion RMB. This has expanded economic ties with emerging market nations. China's trade relations with countries like India, Brazil, and South Africa have strengthened, with consistent growth in bilateral trade over the past decade. For example, China's bilateral trade with Brazil increased from \$53.5 billion in 2010 to \$128.1 billion in 2022, demonstrating China's active pursuit of closer trade relationships.

Furthermore, China consistently supports WTO reform and modernization, proposing enhancements to the dispute settlement mechanism, trade facilitation, and reduction of trade barriers. These efforts encourage the WTO to adapt to the evolving international trade landscape.

These statistics highlight China's active engagement in and contributions to the multilateral trade system and its economic cooperation with emerging market nations. These endeavors assist China in upholding international trade order stability and creating more opportunities for fair competition in global trade.

4.1.2 Promoting Regional Free Trade Arrangements

China can actively promote regional free trade arrangements through the Belt and Road Initiative, which has initiated numerous projects across Asia, Africa, Europe, and Latin America. These initiatives include cooperation agreements with about 140 countries and international organizations, totaling investments exceeding \$4.5 trillion. They encompass various sectors like infrastructure, energy, transportation, communications, and trade, strengthening China's trade and investment cooperation with neighboring nations, fostering closer regional economic partnerships.

Engaging in regional free trade arrangements enables China to reduce reliance on a single market, diversify trade partners, mitigate the impact of the China-US trade war, and create more trade opportunities. Additionally, it provides a platform to shape trade rules aligned with the evolving international trade landscape. Furthermore, China can enhance bilateral trade relations with major economies like the European Union, Russia, Japan, and others, contributing to the stability of the international economic order.

In response to the strategic impact of the China-US trade war, China should prioritize multilateral cooperation and diversification of trade partners. By expanding multilateral trade partnerships and advancing regional free trade arrangements, China can better safeguard its development interests, promote international economic order stability, and seize more development opportunities amid the uncertainties of the international trade environment.

4.2 Promoting Industrial Upgrading and Domestic Demand Growth

In responding to the strategic impact of the China-US trade war, China needs to take a series of proactive measures to promote industrial upgrading and domestic demand growth, thereby better adapting to the new international trade landscape. This section will explore China's strategies, with a particular focus on technology innovation and industrial upgrading, as well as expanding domestic market demand.

4.2.1 Technology Innovation and Industrial Upgrading

China should actively allocate more resources to promote technology innovation, elevate industrial standards, and reduce reliance on international markets. Specific measures include:

a. **Increasing R&D Investment:** The government should boost funding for research and development (R&D) and incentivize companies to invest more in R&D. This will enhance the technological capabilities and innovation capacity of Chinese firms, bolstering their global competitiveness. China's R&D spending has consistently risen since 2013, reaching approximately \$440 billion, making it the world's second-largest^[7].

b. **Strengthening Intellectual Property Protection:** Establishing a robust intellectual property protection system encourages enterprises to pursue independent innovation. Policy measures should encompass support for technological innovation, startups, venture capital provision, and tax incentives to attract domestic and foreign investments in high-tech sectors.

c. **Implementing Industry Guidance Policies:** The government should formulate industry guidance policies to bolster the development of strategic emerging industries and drive the upgrading of traditional sectors. This will enhance the competitiveness of Chinese enterprises in international markets.

These measures will help China advance technology innovation, facilitate industrial upgrading, reduce dependence on international markets, and enhance its international competitive advantage.

4.2.2 Expanding Domestic Market Demand

The Chinese government encourages consumer spending to reduce dependence on exports. In 2022, China's Gross Domestic Product (GDP) grew by 2.8%, primarily driven by robust domestic consumption. Measures include raising residents' income levels, easing market access, attracting foreign investment, and cultivating a consumption culture. These actions help stimulate the growth of domestic market demand, reduce export dependency, achieve sustainable domestic demand growth, and contribute positively to maintaining stable economic development in an uncertain international trade environment and upholding the international economic order.

5. Financial Market Stability and Openness

The stability and openness of financial markets are crucial for China's development within the international economic order under the impact of the China-US trade war. In this section, we will

discuss the strategies that China has adopted in the financial sector, including strengthening financial regulation and risk management and promoting the internationalization of capital markets.

5.1 Strengthening Financial Regulation and Risk Management

The Chinese government should continue to enhance financial regulation to ensure the healthy operation of financial markets. Here are some specific measures:

a. Heightening Risk Prevention: Establish more stringent mechanisms for risk monitoring and assessment to promptly detect and address potential financial risks. This will help prevent systemic risks in the financial market.

b. Improving Financial Regulations: Continuously revise and improve financial regulations to enhance market transparency and the rule of law environment, thereby increasing the stability of the financial market.

c. Enhancing Enforcement: Implement more stringent enforcement measures against financial market misconduct to maintain fairness and justice in the financial market.

5.2 Promoting the Internationalization of Capital Markets

China can attract international investors, enhance the international competitiveness of its financial market, and better adapt to the new international trade landscape by opening up its capital markets, promoting financial product innovation, and improving financial infrastructure. This includes relaxing market access, encouraging financial product innovation to meet international investor demands, and improving financial infrastructure to enhance market efficiency.

By strengthening financial regulation and risk management, China can ensure the stability of its financial market, attract international investments, and promote the stability and sustainable development of the international economic order. However, to attract international investments, China also needs to improve its regulatory system and legal framework to ensure market transparency and stability. The reinforcement of financial regulation and risk management is equally important to prevent potential financial risks and contribute positively to the stability and sustainability of the international economic order.

6. Discussion and Analysis

6.1 In-depth Analysis of the Impact Mechanisms of the China-US Trade War on the International Economic Order

The China-US trade war has had significant impacts on the international economic order:

Global Trade Protectionism: The trade war has fueled global trade protectionism, raising concerns and escalating tensions, thereby challenging the trend of free trade and affecting the multilateral trading system.

Disruption of Global Value Chains: Companies are reevaluating their supply chain strategies to reduce reliance on China and the United States. This shift has affected global value chains, elevating the status of some emerging market countries while introducing instability and increased risks for multinational corporations.

Financial Market Uncertainty: The trade war has caused severe financial market fluctuations, increasing uncertainty. This has left investors concerned about the future, impacting the stability of global capital flows and currency markets^[8].

6.2 Evaluation of the Effectiveness and Sustainability of China's Response Strategies

China's multifaceted measures in response to the China-US trade war demonstrate its proactive stance aimed at maintaining the stability of the international trade order, enhancing economic resilience, attracting foreign investment, and bolstering the competitiveness of its financial market. However, challenges such as global economic uncertainty, the time required for industrial

upgrading, and changes in the international trade environment could impact the long-term success of China's strategies. The sustainability of success depends on policy implementation, international cooperation, and domestic reforms. China needs to continue its efforts to ensure the stability of the international trade order and promote sustainable economic development.

6.3 Global Cooperation and China's Leadership Role

The China-US trade war underscores the urgency of global cooperation. As the world's second-largest economy, China plays a critical role. China can lead by actively participating in international trade negotiations, promoting multilateral cooperation mechanisms, and facilitating the signing of free trade agreements, thus providing solutions for the stability of the international economic order^[9]. However, China also needs to shoulder more responsibility for global public goods, maintain transparent and responsible global cooperation, and ensure that its leadership contributes to the common interests of the international community.

7. Conclusion

This study has examined the impact of the China-US trade war on the international economic order and China's response strategies. The key findings include: Impact on International Economic Order: The trade war has significantly disrupted the international economic order by increasing global trade tensions, reshaping supply chains, and destabilizing international financial markets. China's Response Measures: China has implemented several strategies to mitigate trade war pressures, including support for the multilateral trading system, fostering industrial upgrading, boosting domestic demand, and enhancing financial market regulation. However, it's essential to acknowledge limitations, as the trade war is ongoing, and the full impact remains uncertain. Data constraints may also affect the evaluation of these strategies' effectiveness. Looking ahead, the international economic order will be shaped by various factors, including global economic developments and the growing influence of emerging markets. International collaboration is vital to address challenges and ensure global economic stability. As a major economic power, China should play a significant role in these efforts.

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