



**Sosyal Bilimler
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T.C.
MARMARA ÜNİVERSİTESİ
SOSYAL BİLİMLER ENSTİTÜSÜ
İKTİSAT ANABİLİM DALI
EKONOMİ ve FİNANS (İNGİLİZCE) BİLİM DALI

**TRADE WARS BETWEEN THE UNITED STATES OF AMERICA (USA)
AND THE PEOPLE'S REPUBLIC OF CHINA (PRC) IN THE TRUMP ERA
(2018-2020)**

Master's Thesis

SİNAN HASKAN

ISTANBUL, 2021

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TEZ ONAY BELGESİ

İktisat Anabilim Dalı Ekonomi ve Finans Bilim Dalı Yüksek Lisans öğrencisi Sinan Haskan'ın Trade Wars Between The United States Of America (USA) And The People's Republic Of China (PRC) In The Trump Era (2018-2020) adlı tez çalışması, Enstitümüz Yönetim Kurulunun tarih ve sayılı kararıyla oluşturulan jüri tarafından oy birliği / oy çokluğu ile Yüksek Lisans/Doktora Tezi olarak kabul edilmiştir.

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3	Jüri Üyesi		
4	Jüri Üyesi		
5	Jüri Üye		

ÖZET

Amerika Birleşik Devletleri (ABD) Başkanı Donald J. Trump, Şubat 2018'de, ABD'nin cari açığının en büyük kaynağı olarak değerlendirdiği Çin Halk Cumhuriyeti (ÇHC)'nden ithal edilen çeşitli ürünler için ikili ticaret açığının büyüklüğünü de gerekçe göstererek ek gümrük tarifesi uygulamaya başladı. Aynı yılın Nisan ayında Pekin yönetimince benzer şekilde ABD'den ithal edilen bazı ürünler için ek gümrük tarifelerinin yürürlüğe girmesiyle iki ülke tarafından izlenmeye başlanan korumacı politikalar bir ticaret savaşı halini almıştır. Bununla birlikte, ticaret savaşlarının başladığı 2018 yılından 2020 yılında imzalanan Faz-1 Anlaşması'na kadar gelişen süreçte iki ülke arasındaki ticaret açığında ciddi bir değişikliğin meydana gelmemiş olması oldukça dikkat çekici olup yükselen gerilimin arkasında cari açık veya ikili ticaret açığından farklı nedenler olduğuna işaret etmektedir. Bu noktadan hareketle, bu tezde, ABD ve ÇHC arasında ortaya çıkan ticaret savaşlarının altında yatan esas nedenin iki ülke arasında uluslararası arenada hegemon güç olma rekabetine dayandığı ortaya konmaktadır. Bu bağlamda, iki ülke arasında yaşanan sürtüşmeye konu olan ticari, teknolojik, endüstriyel politikalar ile jeopolitik gelişmeler analiz edilerek süreç ele alınmıştır..

Anahtar Kelimeler: ABD, ÇHC, Ticaret Savaşları, Hegemonya, Ödemeler Dengesi, Ticaret Açığı, Cari Açık, Korumacılık, Kur Manipülasyonu, Teknoloji, Jeopolitik

ABSTRACT

The President of the United States of America (USA) Donald J. Trump, in February 2018, began to additional customs tariffs on the imports of various products from the People's Republic of China (PRC) to reduce the bilateral trade deficit with the PRC; because the Trump administration considered this imbalance as the largest source of the USA's current account deficit. In April of the same year, the protectionist policies implemented by the two countries became a trade war when the Beijing government started to implement additional customs tariffs on some products imported from the USA. However, the fact that there has not been a severe change in the trade deficit between the two countries in the process from 2018, when the trade wars began, to the Phase-1 Deal signed in 2020, is quite remarkable. This case indicates that there are reasons different from the current account deficit or the bilateral trade deficit under the rising tension between both countries. From this point of view, this thesis reveals that the main reason underlying the USA-PRC trade wars is based on the rivalry between the two states to be a hegemonic power in the international arena. In this context, commercial, technological, industrial, and geopolitical policies, which form a side of this friction, are analyzed in order to discuss the different aspects of the process.

Keywords: USA, PRC, Trade Wars, Hegemony, Balance of Payments, Trade Deficit, Current Deficit, Protectionism, Currency Manipulation, Technology, Geopolitics

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ABBREVIATIONS

AIIB: Asian Infrastructure and Investment Bank

BoE: Bank of England

BoJ: Bank of Japan

BoP: Balance of Payments

BRI: Belt and Road Initiative

BRICS: Brazil, Russia, India, China, South Africa

BWS: Bretton-Woods System

CEINEX: China Europe International Exchange

CIPS: China Interbank Payment System

CSA: Currency Swap Agreements

Forex: Foreign Exchange

GATT: General Agreement on Tariffs and Trade

GFC: Global Financial Crisis

GII: Global Innovation Index

FED: Federal Reserve Bank

HST: Hegemony Stability Theory

IMF: International Monetary Fund

IMS: International Monetary System

IPE: International Political Economy

IPR: Intellectual Property Right

KIEO: Keystone International Economic Organizations

NDB: New Development Bank

PboC: People's Bank of China

PCT: Patent Cooperation Treaty

PRC: People's Republic of China

RMB: Renminbi

SCS: South China Sea

SDR: Special Drawing Rights

USA/US: United States of America

USD: US Dollar

WB: World Bank

WIPO: World Intellectual Patent Organization

WTO: World Trade Organization

WWII: World War II

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1. INTRODUCTION

In international economics, the general approach is that improving economic relations among countries reduces the risk of global conflicts because bilateral trade benefits mutually economies of countries having commercial ties. Thus, it is advocated that these relations will have a balancing and tension relieving role against political and military disagreements. On the other hand, for some scholars, international trade can be adversely affected by various frictions among countries, which may escalate as a result of geopolitical or technological conflicts. According to this approach, commercial relations may cause new tensions among nations, specifically as a consequence of the lack of bilateral trade balance.

Trump has placed the USA trade deficit against China at the center of his criticisms since the campaign period. After he was elected president, especially as of 2018, he began to intensely follow protectionist policies against China, which is called the "trade war." The protectionism debates between the USA and China have become official after the Trump administration implemented the tariffs. In this sense, despite the fact that conflicts on the trade deficit between the USA and China have increasingly continued since 2001, the step taken by Trump reveals the importance and depth of argumentation on this topic. In other words, discussions on the USA-PRC trade wars cannot only be evaluated in the context of the foreign trade deficit.

Considering that discussions and frictions between the USA and China have been going on for many years, a fundamental question arises as to why the USA started new protectionist policies like the trade war. This thesis examines the trade wars between the USA and China regarding the hegemonic power relationship between the two countries. Within the scope of the thesis, the purpose is to seek answers to questions such as "Did especially the trade wars solve the bilateral trade deficit problem of the USA as claimed?", "If not,

what was the real purpose?", "Did the USA stance have anything to do with the economic rise of China?", "If there exists, how was this approach reflected in different areas? And how? The thesis investigates trade wars between the USA and China within the relationship between political hegemony and economic gain.

1.1. TRUMPONOMICS AND PROTECTIONISM

In the campaign period, he used a protectionist economic policy discourse explicitly, although it contrasts with the international free trade practices that the USA has been advocating since post-World War II. This economic policy is called “Trumponomics,” which is based on reconstituting and rearranging trade agreements, cutting taxes for individuals and companies, and implementing fiscal incentive policies, particularly in infrastructure and defense.¹ This approach is also based on the anticipation to ensure the coming back of US-origin Multinational Companies (MNC)s and facilities' manufacturing activities and overseas financial capital to achieve growth of 4% annually by creating 25 million additional jobs in 10 years. In this context, diminishing the federal government's debt and meeting the trade and budget balance is also important.² This economic policy is also defined as "America First." Besides, during the presidential campaign, Trump mentioned implementing import duties against various countries such as China, the EU, Canada, and Mexico. Nevertheless, he specifically focused on China in his protectionist economic policies discourse. He stated, as a menace, the USA may abandon the WTO.³

Behind this approach of Trump, specific problems with the USA economy have been remarkable justifications. The main economic problems that the USA economy has been dealing with since the 1990s

¹ Olayini Evans (2019). “The effects of the US-China trade war and Trumponomics.” *Forum Scientiae Oeconomica*. 7 (1), 47-55, pp.48.

² Jamie Morgan (2017). “Trumponomics: everything to fear including fear itself?”. *Real-World Economics Review*. No: 78. Retrieved from: <http://www.paecon.net/PAEReview/issue78/whole78.pdf>. (Accessed on: September 25, 2021).

³ Evans (2019). *Ibid*.

are instability in annual growth rates, declines in employment rates, and high foreign trade deficits. On the basis of these problems, after the collapse of the USSR in the early 1990s, the real production and investments shifted from the western developed capitalist countries to emerging market economies that abandoned the socialist planning economy and adopted the free market economy. As a result of this process, which is supported by globalization, technological innovations, and the development of communication and transportation services, Asian economies, especially China, which has the advantage of cheap labor and natural resources, have attracted large-scale investments since the 1990s and become the production base of the world. Thus, in the last 30 years, the USA has become a country that consumes more than it produces, imports more than it exports, and has an unstable growth rate and a constantly increasing foreign trade deficit. Moreover, the USA economy was faced with an economic recession that would continue for many years with the effect of the Global Financial Crisis triggered by the Mortgage Crisis in mid-2007. To get out of the financial crisis by stimulating domestic demand and increasing total expenditures, the FED (Federal Reserve Bank) followed an expansionary monetary policy until 2015, reducing the interest rates from 6.25% to 0.25% in nominal terms.⁴

Afterward, the FED adopted a tight monetary policy in order to keep the inflation rates at the target value of 2%, gradually increasing the policy rates until 2019, raising them to 2.50%. The high-interest strategy followed by the FED since 2015 led to a relative increase in the external value of the US Dollar. So, it has triggered a further decrease in the existing weak competitiveness of US exporters against Asian economies. This development eventuated a rapid increase in foreign trade deficits in the economy of the USA. The foreign trade deficit of the USA increased to 862 Billion US dollars in 2017, the highest deficit in the 10

⁴ Cemil Erarslan, Ferhat Pehlivanlıoğlu (2020). “ABD-Çin Ticaret Savaşı ve Dünya Ekonomisi Üzerindeki Etkileri.” In Hatice Erkekoğlu, Kıvanç Halil Arıç (eds), Yükselen Asya: Makro Göstergeler, Çevre, Enerji, Büyüme İlişkileri ve Kalkınma Deneyimleri. 195-215, İstanbul: Ekin Publishing. pp.195.

years since 2007, when the USA economy fell into the Mortgage Crisis. From that standpoint, such a high foreign trade deficit is not sustainable; the Trump administration abruptly increased the existing tariffs and imposed new additional tariffs on steel and aluminum products imported from China in March 2018. The USA administration also imposed high customs duties on other Chinese export goods in the following periods. Trade wars between the USA and China have officially started with the Chinese administration putting additional customs tariffs at the same rate applied to imported products from the USA. The main goal of the Trump administration is to protect manufacturers in the domestic market of the USA by making Chinese exports expensive for American importers and consumers. Thus, as the demand for Chinese products would fall and the production and income of domestic investors would increase, the USA's national income and employment rates would increase while unemployment rates would decrease.⁵

In the face of such Trump administration claims, views have emerged both support the administration and criticize the reasons put forward by the administration. Many different opinions have been put forward among defenders of the critical approach that the trade wars have been triggered mainly by another reason than economic gain. Among them, the assessment that the competition between the USA and China is fundamentally a strategic rivalry is remarkable. Even as a continuation of this approach, the trade wars between the USA and China are likened to the rivalry between the Soviet Union and the USA during the Cold War. For instance, via referring to the Reagan period, in particular, Goldstein (2020) states that in the 1980s, the USA administration considered the USSR's military power as an essential threat and resorted to economic and financial means with an "offensive and destructive approach" to weaken the Soviet Union economically. According to her, the primary purpose here was to incapacitate the Soviet Union economically and force it to accept that it could not compete against the USA based solely on its military

⁵ Ibid. pp.196-197.

capacity and hegemonic power in the long run.⁶ In fact, in those years, as a superpower, the USA launched intense trade friction against Japan in the face of its rise internationally.⁷ From this standpoint, trade wars between the USA and China can be considered a front or part of the struggle for hegemony between the USA and China. These front can be listed as trade, defense, and security (South China Sea), and cyber and digital technologies such as Artificial Intelligence (AI) and 5G.⁸

Before discussing the points examined in the thesis, it is necessary to summarize what discussions have been made on this topic in the literature. Thus theoretical background, which is also based on historical discussions, may be provided to the reader. The next section includes an extensive literature review on the USA-China competition and the USA-China trade wars, which also addresses protectionism in terms of international political economy (IPE) theories and debates on the concepts of economic gain and hegemony.

1.2. LITERATURE REVIEW

The first point that needs to be clarified in terms of the literature regarding this topic is how this dispute, which is the subject of competition, is handled in the literature. For instance, while Steinbock⁹ (2018), Grossman and Helpman¹⁰ (1995), Qiu, Zhang, and X. Wei¹¹ (2019) used the expression of trade wars, L.

⁶ Lyle J. Goldstein (2020, 15 November). "To Explain Trump's Trade War, China Studied Reagan's Economic Battle with the Soviets." The National Interest. Retrieved from: <https://nationalinterest.org/blog/reboot/explain-trump%E2%80%99s-trade-war-china-studied-reagan%E2%80%99s-economic-battle-soviets-172606> (Accessed on: July 16, 2021).

⁷ Sanja Arežina (2019). "U.S.-China Relations Under the Trump Administration: Changes and Challenges." China Quarterly of International Strategic Studies, 5(3), 289–315. pp.303.

⁸ Timothy Ash. (2018, 6 December). "China and the US: trade war or cold war?." Financial Times. Retrieved from: <https://www.ft.com/content/fe6f63ea-f964-11e8-af46-2022a0b02a6c> (July 16, 2021).

⁹ Dan Steinbock. (2018). "US-China Trade War and Its Global Impacts." China Quarterly of International Strategic Studies, 4(4), 515–542.

¹⁰ Gene M. Grossman, Elhanan Helpman. (1995). "Trade wars and trade talks." Journal of Political Economy 103(4), 675-708.

¹¹ Larry D. Qiu, Chaoqun Zhan, Xing Wei (2019) "An analysis of the China-US trade war through the lens of the trade literature." Economic and Political Studies, 7(2), 148-168.

Wei¹² (2013), Miura¹³ (2019), Langdon¹⁴ (1983), and Mason and Turay¹⁵ (1991) used the expression of trade frictions. Kwan¹⁶ (2019), on the other hand, used these two concepts together. Aslam¹⁷ (2019) and Tianhao and Yan¹⁸ (2018) used the expression of trade disputes, and lastly, Zeng¹⁹ (2004), in addition to all these three concepts, used the expression of trade conflicts. At this point, it should be highlighted that, as Zeng (2004) indicates, trade disputes or conflicts may trigger more extensive and comprehensive struggle between states, and at this stage, they may convert into a “trade war.” However, also by taking account of that, the concept of trade wars is mostly used in recent studies, the word trade war(s) will be used in place of trade friction(s), trade dispute(s), and trade conflict(s) in this study. The topics that are mostly to be addressed in the context of the literature of trade wars are the discussions on historical and current encountered examples, international political economy theories, hegemony, economic welfare, and debates on protectionism and free trade.

Since World War 2 (WW2), theoretical and empirical studies have been carried out on economic interdependence and conflict. There are various propositions on the interdependence and conflict in economic relations among countries. One of the two dominant views in the literature is the neo-realist view,

¹² Libing Wei, (2013). “A perspective on the impact of trade friction on customs performance.” *World Customs Journal*. 7(1), 81-91.

¹³ Yuji Miura (2019). “Impact of US-China Trade Friction: An Overview Based on Value Added Trade Statistics.” *RIM Pacific Business and Industries* 19(72).

¹⁴ Frank Langdon (1983). “Japan–United States Trade Friction: The Reciprocity Issue.” *Asian Survey*. 23(5), 653-666.

¹⁵ Abdul M. Turay (1991). “The Economic Dimensions of US-Japan Trade and Trade Frictions.” In Abdul M. Turay, David T. Mason, (Eds.), *US-Japan Trade Friction: Its Impact on Security Cooperation in the Pacific Basin* (pp. 7-29). New York: St. Martin’s Press.

¹⁶ Chi Hung Kwan (2019a). “Expansion and Prolonging of US-China Trade Friction: Conspicuous Trend of Decoupling.” *Research Institute of Economy, Technology and Industry*. Retrieved from: <https://www.rieti.go.jp/en/china/19062601.html>

¹⁷ Mohamed Aslam Gulam Hassan (2019). “US-China trade disputes and its impact on ASEAN.” *Transnational Corporations Review*. 11(4), 332-345.

¹⁸ Sun Tianhao, Wang Yan (2018). “Trends of U.S.-China Trade Disputes and Beijing’s Policy Options.” *China Quarterly of International Strategic Studies*. 4(4), 543-557.

¹⁹ Ka Zeng (2004a). *US-Japan Trade Friction: “Its Impact on Security Cooperation in the Pacific Basin”* Michigan: The University of Michigan Press. pp.10.

which emphasizes that existing asymmetries between countries will create conflict. The other is the liberal argument, which emphasizes that interdependence among countries creates a peaceful atmosphere in the international arena. Between these two views, a view put forward as a moderate view between neo-realist and liberal views in the literature is that the decrease in future expectations about trade will reduce the possibility of conflict.²⁰ Apart from these approaches, economic integration and trade dependency states are global in Marxist and critical theory-based analyses. This perspective emphasizes that political powers and supranational classes severely narrow the national sovereignty areas by leaving them sensitive and vulnerable to manipulations.²¹ There are essentially three approaches from the International Political Economy (IPE) area from these standpoints: mercantilist (economic nationalist), liberal and critical views.²² The IPE literature has dynamic content in the context of the connection of economic welfare and political hegemony with foreign trade policy.

Mercantilists support protectionism, especially in an industry like F. List and A. Hamilton.²³ Cohn (2016) is identified them as “neo-mercantilists.”²⁴ Hettne (1993) indicates that “neo-mercantilism” is related to foreign trade and encourages industrialization.²⁵ In terms of economic view, they support industrial economy against agricultural one, for enhancing export for surpassing import.²⁶ Such policy is related to the infant industry thesis in the literature. In fact, in particular, since the Age of Mercantilism (15th-18th centuries), customs duties and tariffs for protectionism were leading economic tools for states. Within this

²⁰ Özlem Zerrin Keyvan (2020). “Thucydides Tuzağı’na Karşı Karşılıklı Bağımlılık Kapsamında ABD ve Çin.” In Çağdaş Üngör, (eds). *Asya-Pasifik Çalışmalarında Yeni Ufuklar*. İstanbul: Küre Publishing. pp.143.

²¹ Sadık Ünay (2010). “Ticaret Savaşları ve Ulusal Çıkarlar: Uluslararası Bir Çatışma Alanı Olarak Küresel Ticaret, Dünya Çatışmaları: Çatışma Bölgeleri ve Konular,” vol: 2. In Kemal İnat, Burhanettin Duran., Muhittin Ataman. (eds.). Ankara: Nobel Publishing. pp.642.

²² Orhan Şimşek (2018). “Economic nationalism: international political economy and strategic resource policies.” In Jose R. Pires Manso, Ahmet Arif Eren (eds). *Economic issues in retrospect and prospect*. Vol (I). 29-37. pp.30.

²³ Theodore H. Cohn (2016). *Global Political Economy: Theory and Practice*. New York: Routledge. pp.90.

²⁴ Ibid, pp.93.

²⁵ Björn Hettne (1993). “The Concept of Neomercantilism. In Lars Magnusson (eds.), *Mercantilist Economics*” (pp. 235-255). New Dordrecht: Springer Publishing. pp.249.

²⁶ Cohn (2016). Ibid, pp.87.

framework, protectionism is known as a foreign trade policy to prioritize the preserving of domestic producers in a country against foreign competition.²⁷ Even though economic matters have serious importance in neo-mercantilism, politics takes precedence of economics in line with realist thought. Namely, economics emerges as a result of states and their policies.²⁸ The second main theoretical perspective of International Political Economy (IPE) is Liberalism. It is still the most influential and dominant approach among IPE theories. Liberals defend the free market, constrained role, and minimized government intervention in economy and trade. Depending on this understanding, liberals evaluate politics and economics as two independent areas from each other.²⁹ Thirdly, another fundamental theoretical perspective of IPE is Critical Theory, also called “Historical Materialism.” This approach is based on a clash between producing and non-producing classes. Economic and commercial relations are evaluated from the standpoint of conflictions since, in this thought, the producing class (labor) is exploited by the non-producing one (bourgeois). In this sense, according to Marxism, which has inspired other theories among Critical Theories, there is no apparent attitude in principle on protectionism or free trade. However, Marx expressed views closer to free trade, albeit slightly. Also, in Marxism, while economics is evaluated as infrastructure, politics is evaluated as superstructure.³⁰

In terms of the main problem of this thesis, in the literature, the topic of the economic gain comes to the front. The basic assumption of mercantilist thought, which sees trade as a zero-sum game, is that the enrichment of one country can only be achieved by the impoverishment of other country(s). In this thought, enhancing the power of a country in the global system is strengthening its economy. For this target, the view of having a permanent trade surplus is emphasized. In liberal economic thought, free trade will pave the

²⁷ Celal Kızıldere (2018), “21. Yüzyılda yeni bir savaş türü: ticaret savaşları ve yeni Korumacılık.” *Social Mentality and Researcher Thinkers Journal*, 4 (14), 1065-1071. pp.1069.

²⁸ Cohn (2016). *Ibid*, pp.88.

²⁹ Cohn (2016). *Ibid*, pp.113-114.

³⁰ Cohn (2016). *Ibid*. pp.146-147.

way for enrichment by creating absolute advantages for all parties participating in international trade. On the other hand, protectionism is considered necessary as long as it is a temporary step towards free trade.³¹ Defending that a country should protect its producers from all kinds of foreign competition, protectionism is a type of policy that almost all developed countries have implemented in their history. In his book "Bad Samaritans" (2007), Ha-Joon Chang states that none developed countries prospered with free trade policies and liberal institutions. These countries used tariff protection and incentives to build their industries.³² In his other book, "Kicking Away the Ladder" (2002), Chang supports this thesis within the framework of the discussions between the concepts of free trade and protectionism, and "how do rich countries get rich?" seeks an answer to the question. He demonstrates various examples from these countries that implemented protectionist policies in their development processes. Thus, they achieved their development processes in this way.³³ In parallel to this, Paul Krugman also tackles this topic with the concept of Strategic Trade Policy. Advanced economies can keep their economic profits in the face of foreign competition via protectionist implementations.³⁴ Apart from these, despite the fact that liberalism and neo-mercantilism refer to free trade³⁵ and protectionism³⁶ successively, historical materialism and Marxism evaluate free trade as more harmonious to create economic prosperity than protectionism.³⁷

As a part of all these debates, in terms of economic welfare, the question that should be answered is which trade policy creates more economic prosperity.³⁸ According to Bhagwati (1993), reciprocal free trade

³¹ Ünay (2010). Ibid.

³² Ha-Joon Chang (2007). "Bad Samaritans The Myth of Free Trade and the Secret History of Capitalism." New York: Bloomsbury Press.

³³ Ha-Joon Chang (2002). "Kicking Away the Ladder: Development Strategy in Historical Perspective." London: Anthem Press

³⁴ Qui, Zhan, Wei (2019). Ibid.

³⁵ Paolo Guerrieri, Pier Carlo Padoan (1986). "Neomercantilism and International Economic Stability." International Organization. 40(1), 29-42.

³⁶ Patrick J. McDonald (2004). "Peace through Trade or Free Trade?" The Journal of Conflict Resolution. 48(4), 547-572

³⁷ Reza Ghorashi (1995). "Marx on Free Trade." Science & Society. 59(1), 38-51.

³⁸ Regine Adele Ngono Fouda (2012). "Protectionism and Free Trade: A Country's Glory or Doom?" International Journal Trade, Economics and Finance. 3(5), 351-355.

provides for welfare than unilateral free trade. The absence of reciprocity for free trade absolute always creates unfair results for sides having relations.³⁹ In terms of theoretical perspective, Samuelson⁴⁰ (1939), Kemp⁴¹ (1962), and Kenen⁴² (1959) signify that free trade creates more economic welfare than the protectionist approach. Dupuis⁴³ (2017) stated that protectionist measures trigger to diminish economic efficiency. For free trade defenders, even if tariffs enter into force to create more prosperity, they lead to extra spending and externalities for protection, so free trade makes more welfare.⁴⁴ According to Brander and Spencer⁴⁵ (1983) and Krugman⁴⁶ (1986), domestic growth and welfare enhance via protectionism since domestic firms' export capacity increases due to improving their economic and technological competitiveness. In other words, their marginal cost decreases while marginal profit enhances⁴⁷.

Additionally, the other crucial topic in the literature is hegemony. This topic should be examined from the concept of hegemonic order. A country may have the dominant position in the international arena, or there may be no such a single superior state in the international arena, defined as the balance of power.⁴⁸ There are different approaches to hegemony in the three main theories in the IPE literature. Neo-mercantilists

³⁹ Jagdish N. Bhagwati (1993). "Fair trade, reciprocity, and harmonization: the novel challenge to the theory and policy of free trade." In Dominick Salvatore (eds.), *Protectionism and World Welfare* (pp. 17-54). Cambridge: Cambridge University Press.

⁴⁰ Paul A. Samuelson. (1939), "The Gains from International Trade," *Canadian Journal of Economics and Political Science*, 5, 195-205.

⁴¹ Peter B. Kenen(1959). "Distribution, Demand and Equilibrium in International Trade: A Diagramatic Analysis". *Kyklos*. 629-638.

⁴² Murray C. Kemp. (1962), "The Gain from International Trade," *Economic Journal*, 72(288), 303-19.

⁴³ François Dupuis (2017). "Protectionism: A brake on economic growth." *Desjardins: Economic Studies*.

⁴⁴ Morris Altman (1999). "Free Trade and Protection," In Phillip O'Hara, ed., *Encyclopedia of Political Economy*. London: Routledge. 372-375.

⁴⁵ James Brander, Barbara Spencer (1983), "International R&D Rivalry and Industrial Strategy," *Review of Economic Studies*, 50, 707-22

⁴⁶ Paul R. Krugman (ed.) (1986), "Strategic Trade Policy and the New International Economics." Cambridge, Massachusetts: The MIT Press

⁴⁷ Ryuza Sato, Rama Ramachandran, Shunichi Tsutsui. (1993). "Protectionism and growth of Japanese competitiveness." In Dominick Salvatore (Eds.), *Protectionism and World Welfare* (pp. 336-371). Cambridge: Cambridge University Press.

⁴⁸ G. John Ikenberry (2014). "From Hegemony to the Balance of Power: The Rise of China and American Grand Strategy in East Asia." *International Journal of Korean Unification Studies*. 23 (2). 41–63. pp.43.

argue that the hegemon state tries to protect its national interests and that the hegemonic order contributes to the economic growth processes of the rising powers. According to liberals, they argue that hegemonic power brings order to the system by carrying the burden of the international system. In this regard, the Hegemonic Stability Theory (HST) stands out in the literature. For this theory, hegemonic power establishes a liberal order by bringing openness and stability to the international system. From the standpoint of the critical theory, the hegemonic state is the power having superiority over the developing countries via coordinating the developed countries. Within this framework, according to both neo-mercantilist/neo-realist and critical theory, when the hegemonic power begins to decline, instability and disorder start in the system in the face of rising of some powers on the globe.⁴⁹ In line with this view, according to the World-System theory, while the hegemonic power is dominant in the international system, it follows a liberal policy in economic and commercial terms. However, when the hegemonic power starts to decline, it shows protectionist tendencies. Especially on the connection between protectionism/free trade and hegemony/balance of power, World-System theory is quite explanatory.⁵⁰ At this point, it should be pointed out that this sort of change is related to the concept of power shift. In the literature, on this topic, except for the Modern World-System theory put forward by Wallerstein,⁵¹ Organski, and Kugler's Power Transition Theory,⁵² Modelski and Thompson's Global Cycles Theory⁵³ are the prominent theories. Besides, studies of Goldstein's on Kondratieff Waves⁵⁴ and Gilpin's on the HST⁵⁵ are remarkable as well.

In the light of these discussions, the USA-China trade wars can be examined in the literature in terms of two issues fundamentally. While the first one is the escalation of the Sino-American rivalry, the other one is the

⁴⁹ Cohn (2016). Ibid. pp.96-97.

⁵⁰ Kojin Karatani (2018): "Neoliberalism as a historical stage." *Global Discourse*, 1-17. pp.10.

⁵¹ Immanuel Wallerstein (1984). "The Politics of the World-Economy: The States, the Movements and the Civilizations." London: Cambridge University Press.

⁵² Abramo Fimo Kenneth Organski, Jacek Kugler (1980). "The War Ledger." Chicago: University of Chicago Press.

⁵³ George Modelski, William R. Thompson (1988). "Sea power in global politics 1494-1993." London: Macmillan Publishers.

⁵⁴ Joshua S. Goldstein (1985). "Kondratieff Waves as War Cycles." *International Studies Quarterly*, 29(4), 411-444.

⁵⁵ Robert Gilpin (1981). "War and change in world politics." Cambridge: Cambridge University Press

studies on arising trade war between the USA and China because this topic is the continuation of the rise of China in the face of the USA. As mentioned above, in the literature, on the Sino-American relationship, two approaches have become prominent, based on peaceful cooperation and competitive conflict. In this sense, Henry Kissinger defends the view that China can rise in the existing US-centric order without posing a threat, which is defined as "China's Rise for Peace" by Zheng Bijian (2005)⁵⁶ in his book *On China* (2011).⁵⁷ Similarly, Joseph Nye claimed that the relations between the two countries are far from the competition based on hegemonic power relations. Since the USA still has a superiority against China in terms of various indicators like per capita income, Research and Development (R&D), and technological expenditures and competitiveness, except for the total economic size.⁵⁸

Similarly, according to Jian Xu, there is no existential contradiction between the two countries, even though the USA pursues policies to maintain its hegemony. After all, China's main aim is not to compete for world leadership but to pursue its economic development in a peaceful way.⁵⁹ Wei Li (2007), a Chinese academic, stated that although the foreign trade deficit of the USA with China is a possible frictional matter between the two countries correlative to the economic escalation of China, the intense economic relations between the two countries reduce the possibility of creating a severe conflict.⁶⁰

Despite such claims that the USA and China's relations are not based on hegemonic competition, there are also opinions contrary to this issue. For instance, according to John Mearsheimer, China would not be able to peacefully continue its rise against the USA because this country, which has been achieving a tremendous

⁵⁶ Zheng Bijian (2005). "China's Peaceful Rise: Speeches of Zheng Bijian 1997-2004." Washington: Brookings Institution Press. p.13.

⁵⁷ Henry Kissinger (2011). "On China." New York: The Penguin Press.

⁵⁸ Ozan Örmeci (2018). "Ejderin Ayak Sesleri: Dünya Siyasetinde Çin Halk Cumhuriyeti." Istanbul: Cinuis Publishing. pp.60-61.

⁵⁹ Ibid. pp.74.

⁶⁰ Li Wei. (2007). "China-U.S. economic relations and the trade imbalance issue." In Suisheng Zhao (eds.). *China-U.S. Relations Transformed: Perspectives and Strategic Interactions*. pp.103-116.

economic and political influence in the international order, is about to turn into a giant Hong-Kong by 2040. In this respect, Mearsheimer's most striking thesis is that China will imitate the USA's path to becoming the world leader.⁶¹ In his book, Edward Luttwak (2012), "The Rise of China vs. the Logic of Strategy," mentions that a commercial and economic struggle has been arising between the USA and China. He likens the current situation between the USA and China to the economic, technological, and military rivalry between Britain and Germany before the First World War. According to him, if the military escalation of China cannot be prevented, the USA should use economic and commercial tools to slow down the development and growth process of this country. Namely, it should be kept at a level at which the USA can compete. To this end, Luttwak advises the USA administration to limit the US domestic markets for Chinese exporters, prevent any technology transfer to China, and cut off the supply of raw materials to China.⁶²

Also, Peter Navarro, who was the head of the White House National Trade Council during the Trump era, wrote several books on the affairs between the USA and China, which are per the view of competitive conflicts, such as "The Coming China Wars" (2006),⁶³ "Death by China" (2011)⁶⁴ and "Crouching Tiger" (2015).⁶⁵ In these books, Navarro considers the trade deficit of the USA with China as a national security problem and points out that China's rapid economic rise and its integration of the international economy with the effects of globalization threatens the USA. Accordingly, China forms the most serious menace in the face of the worldwide superiority of the USA owing to its economic -specifically commercial- policies. In the international arena, to prevent China from gaining the dominant position and following assertive policies is vital beyond stimulating the USA economy and manufacturing sector. Through slowing China's

⁶¹ Örmeci, (2018). Ibid. pp.54-55.

⁶² Edward N. Luttwak (2012). "The Rise of China Vs. The Logic of Strategy." Cambridge, Massachusetts: Harvard University Press

⁶³ Peter Navarro (2006). "The Coming China Wars: They Will Be Fought, How They Can Be Won." New York: FT Press

⁶⁴ Peter Navarro, Greg Autry (2011). "Death By China: Confronting the Dragon — A Global Call to Action." New Jersey: Prentice Hall.

⁶⁵ Peter Navarro, Gordon G. Chang (2015). "Crouching Tiger: What China's Militarism means for the World." Amherst, New York : Prometheus Books

economic growth, the USA would obstacle it to enhancing its military power. In the same vein, Graham Allison, in his book, *Destined for War*, explains the arising USA-China rivalry with the concept of "Thucydides trap" from the realist thought. This concept is the perception as a threat of an actor, which is rapidly rising economically, politically, or strategically in the international arena by the existing dominant state(s). According to Allison, such conditions have occurred 16 times in the last five centuries, which of 12 have resulted in war. For this reason, the Sino-American rivalry and the probability of the outbreak of war between two powers are a dystopian scenario and severe political risk, as China has already surpassed the USA in many technological and economic areas. All of these foster worries of the USA over China's rapid rise and the long-term aims of the Chinese government. Accordingly, China, which has been becoming a superior power in the Asia-Pacific, targets to gain a global power position. For these causes, the Thucydides Trap situation in history may repeat itself between the USA and China.⁶⁶

The last point that must be tackled within the main topic of the thesis is the literature about the trade war between USA and China. In the literature, this issue is discussed from many different angles. These can be listed mainly as the frictions regarding the balance of payments, financial results of trade wars (arguments about the profit or loss of protectionism against free trade), matters related to the international monetary system, technological competition, and geopolitical challenges. There is ever-expanding literature on these issues, and different academic studies raise various topics within the framework of new questions. For instance, Hass and Denmark (2020) discuss the trade wars between the USA and China, particularly in terms of their economic consequences. Accordingly, even though the protectionist practices between the two countries caused a decrease in the trade deficit of the USA against China, they did not have a serious effect on the reduction of the total trade deficit. Besides, contrary to expectations, these practices slowed down the

⁶⁶ Graham Allison (2017). *Destined for War: Can America and China Escape Thucydides's Trap?* New York: Houghton Mifflin Harcourt.

growth rate of the USA. In other words, protectionist practices caused a cost of between 0.3% and 0.7% of real GDP and a loss of approximately 300,000 jobs.⁶⁷ For a report published by Bloomberg Economics in 2019, tariffs created a cost of USD316 billion as of the end of 2020.⁶⁸ While Amiti, Redding, and Weinstein (2020) calculate the cost of the trade war as 46 billion USD,⁶⁹ for research conducted by the Federal Reserve Bank of New York, this figure is equal to 1.7 trillion USD for selected firms from the USA in terms of their stock prices.⁷⁰

In another study of Amiti, Redding, and Weinstein in 2019, they examined this matter within the framework of the "Deadweight Loss" concept. They pointed out that the tariffs applied between the USA and the PRC created an additional cost of 8.2 billion USD in addition to the loss of the existing 14 billion USD.⁷¹ Based on the concept of "Prisoners Dilemma," Ossa (2019) argues that the trade war causes economic losses for both sides.⁷² In a word, contrary to the discourse that the arising trade war springs from the aim of the reduction of bilateral trade deficit between USA and China, trade war. Trade wars are insufficient to reduce this deficit and create additional costs. This case increases the importance of studies on the deep causes of the USA's bilateral trade deficit issue.

⁶⁷ Ryan Hass, Abraham Denmark (2020, 7 August). "More pain than gain: How the US-China trade war hurt America." Brookings Institute. Retrieved: <https://www.brookings.edu/blog/order-from-chaos/2020/08/07/more-pain-than-gain-how-the-us-china-trade-war-hurt-america/> (Access: August 30, 2021).

⁶⁸ Shawn Donnan, Reade Pickert (2019, 18 December). "Trump's China Buying Spree Unlikely to Cover Trade War's Costs." Bloomberg. Retrieved: <https://www.bloomberg.com/news/articles/2019-12-18/trump-s-china-buying-spree-unlikely-to-cover-trade-war-s-costs> (Access: August 30, 2021).

⁶⁹ Mary Amiti, Sang Hoon Kong, David E. Weinstein. (2020a). "The Investment Cost of the U.S.-China Trade War." Federal Reserve Bank of New York. Retrieved: <https://libertystreeteconomics.newyorkfed.org/2020/05/the-investment-cost-of-the-us-china-trade-war/> (Access: August 30, 2021).

⁷⁰ Mary Amiti, Sang Hoon Kong, David E. Weinstein. (2020b). "Who's paying for the US Tariffs? A Longer-Term Perspective." National Bureau of Economic Research. (NBER). Working Paper No: 26610. Retrieved: <https://www.nber.org/papers/w26610> (Accessed on: August 30, 2021)

⁷¹ Mary Amiti, Sang Hoon Kong, David E. Weinstein. (2019). "The Impact of the 2018 Tariffs on Prices and Welfare." The Journal of Economic Perspectives, 33 (4), 187-210.

⁷² Ralp Ossa (2019). "The costs of a trade war." In Meredith A. Crowley (eds). Trade War: The Clash of Economic Systems Endangering Global Prosperity. Centre for Economic Policy Research (CEPR). London: CEPR Press. 45-50.

As a continuation of this debate, Sheng and do Nascimento (2021) draws attention to the fact that the foreign trade deficit of the USA against the world, especially China, which were put forward as the reason for the start of trade wars, stems from the position of the US Dollar as the international reserve currency. For the US dollar to circulate worldwide, the domestic currency of the USA must have a foreign trade deficit. Besides, in the opinion of these researchers, the growth of the bilateral goods trade deficit is also the result of globalization.⁷³ Klein and Pettis (2020), in their remarkable book "Trade Wars, are Class Wars." with a similar approach, evaluate the two foreign trade deficit issues as a reflection of the global hegemonic position of the US Dollar. In addition, they underline that the global financialization that started especially after 1971 under the leadership of the USA increased the socioeconomic inequalities in the USA and the world. Therefore, the USA became a country with a savings deficit in the face of countries with a savings surplus like Germany, China, and Singapore. Apart from increasing inequality between classes, the fundamental trigger in the emergence of trade wars is the global imbalances between the USA and these countries, particularly China, because of their trade deficit and trade surpluses. At this point, while Klein and Pettis (2020) note that China's capacity and colossal trade surplus has paved the way for the emergence of the Belt and Road Initiative (BRI),⁷⁴ Yi (2020) draws attention to the importance of the issue in the context of the arising of trade wars. Accordingly, he highlights that BRI would lead to intensifying China's affairs with the participating countries and thus the rising of the global use of the Renminbi (RMB) in the face of the US Dollar usage superiority in the global markets.⁷⁵

Moreover, Pauken II (2020) evaluates the trade war from a geopolitical point of view as an extension of the international de-globalization process on the rise in the world. He considers the Made-in-China 2025 (MiC)

⁷³ Li Sheng, Dmitri Felix do Nascimento. (2021). "Love and Trade War: China and the U.S. in Historical Context." Singapore: Springer Nature Singapore

⁷⁴ Matthew C. Klein, Michael Pettis (2020). "Trade Wars Are Class Wars: How Rising Inequality Distorts the Global Economy and Threatens International Peace." New Haven: Yale University Press.

⁷⁵ Miaojie Yi. (2021). "China-US Trade War and Trade Talk." Singapore: Springer Nature Singapore

industry program put forward by the Chinese government is as one of the most important reasons behind the trade wars. China's economic growth model has been defined as "new normal" after 2014. Since, thanks to this program regarding manufacturing and advanced technology industries, China aims to become the leading status in international markets against the USA.⁷⁶

On the other hand, via addressing China's State-Owned Entrepreneurship (SOE) and Foreign Direct Investment (FDI) policy, Gross (2021) considers trade wars as a process that paves the way for technology wars. This issue is related to tensions created by the discussions on technology transfer. In parallel to its rapidly growing economy, China's steps feed the concerns of the USA. Accordingly, China poses a threat to the USA's technological superiority in the international arena. Substantially, the competition and trade wars between the two parties achieve and maintain a technological monopoly globally.⁷⁷ About this discussion, Ciuriak (2019) expressed that trade wars are driven by technological struggle. This process is related to the level of advancement in artificial intelligence (AI), data, and information technologies. He underlines developments and intellectual property (IP) rights in these technologies have geostrategic importance. Thus, the driving force of trade wars is the intense competition between the two countries.⁷⁸ In another article, Ciuriak (2021), who was written with Ptashka, explains this technological struggle with the concept of "the new great game." They investigate the technological rent that would be more acquired in international markets thanks to the worldwide superiority in the data-driven economy as part of the strategic trade and investment policy.⁷⁹

⁷⁶ Thomas Weir Pauken II (2020) "US vs China from Trade War to Reciprocal Deal." Singapore: World Scientific Publishing.

⁷⁷ Daniel Gross (2021). "The US–China technology conflict The causes." In Rahul Nath Choudhury (eds.). *The China–US Trade War and South Asian Economies*. New York: Routledge. 217-228.

⁷⁸ Dan Ciuriak (2019, 11 January). "A Trade War Fuelled by Technology." Centre for Governance Innovation (CIGI). Retrieved: <https://www.cigionline.org/articles/trade-war-fuelled-technology/> (Access: August 31, 2021).

⁷⁹ Dan Ciuriak, Maria Ptashkina (2021). "Technology Rents and the New Great Game." In Rahul Nath Choudhury (eds.). *The China–US Trade War and South Asian Economies*. New York: Routledge. 229-248.

In this sense, Sheng and do Nascimento (2021) underline that the USA and China's policy set regarding trade, finance, and energy has geopolitical purposes, as seen in trade wars. In other words, these countries are trying to achieve their political and security goals with geoeconomic steps.⁸⁰ Also, Friedman (2019) dwells on geopolitical conflicts. These conflicts cover political, economic, and military issues and create basic logic in the outbreak of trade wars beyond discussions between these countries, such as exchange rate manipulation, domestic market openness, and access to new technologies.⁸¹ In the light of all these debates, Liang and Ding (2021) tackled trade wars with the geopolitical conflicts and technological struggle between both countries by identifying the "cold war." For him, there is a possibility that the process may turn into an "economic cold war." Hence, indeed, it is a hegemonic competition.⁸² Similarly, Lau (2019) sees the trade wars as a reaction of the USA against the economic rise of China and its challenge for its international economic and military dominance with a technological strategy such as Made in China 2025, R&D, and patent studies. In terms of the USA, these steps perceive as a threat.⁸³ Finally, Wei and Davis (2020) stated that USA-China trade wars would carry the struggle for hegemony between the two countries to a different dimension, and for this reason, they may cause to start a new cold war globally.⁸⁴ As an end, even though trade wars between the USA and China are discussed in the literature from various angles, this issue should be examined, primarily, should be considered competition for global hegemony between two parties. In other words, theoretical approaches and historical and current examples in the literature support the view that trade wars are a power struggle between the USA and China at the cost of economic loss or insufficient economic gain.

⁸⁰ Sheng, do Nascimento (2021). Ibid.

⁸¹ George Friedman (2019, 26 August). "The Geopolitical Logic of the US-China Trade War." Geopolitical Futures (GPF). Retrieved: <https://geopoliticalfutures.com/the-geopolitical-logic-of-the-us-china-trade-war/> (Access: August 31, 2021).

⁸² Guoyong Liang, Haoyuan Ding (2021). "The China-US Trade War." New York: Routledge.

⁸³ Lawrence J. Lau. (2019a). "The China-U.S. Trade War and Future Economic Relations." Hong Kong: The Chinese University Press.

⁸⁴ Bob Davis, Lingling Wei (2020). "Superpower Showdown: How the Battle Between Trump and Xi Threatens a New Cold War." New York: Harper Collins Publishers.

1.3. RESEARCH QUESTION AND METHODOLOGY

This study essentially scrutinizes the question of “Which motivation escalates the protectionist policies like trade wars for great power? Political Hegemony or Economic Gain?.” Briefly, the answer to this question is that the great powers initiate trade wars to gain a hegemonic position in the international arena or maintain their hegemonic status, even if they cause economic losses - or at least not create significant gains. In this sense, the thesis focuses specifically on the recent trade war process between the USA and China. To make an in-depth analysis, the controversial areas that are the subject of the trade war between the USA and the PRC are examined in detail, and theoretical and practical similarities between historical examples and theoretical approaches are revealed.

After determining the main question of the thesis, the most critical issue is the selection of the fundamental research method for the data collection and analysis. The basic research method followed in the thesis is the hypothetico-deductive method. According to this method, data is collected and analyzed after a hypothesis is put forward around the main question. Eventually, the results are evaluated.⁸⁵ Within this framework, the main argument developed in the thesis on the relationship between economic gain and political hegemony. The USA-China trade war was tested under each sub-headings as a sort of measure. Then, the results were considered after data collection and analysis. In connection with this, another significant point is which of the quantitative and qualitative methods is adopted chiefly for making evaluations in the thesis. Although numerical data and statistics are used in the thesis, the qualitative data analysis method has been adopted. While primary and secondary sources were used for quantitative data, primarily secondary sources were used for qualitative data. This situation creates a limitation for the thesis. Besides, theoretical knowledge could not be tested in all aspects due to the lack of implementation. Another limiting factor is that since a

⁸⁵ Uma Sekaran, Roger Bougie (2016). “Research Methods for Business: A Skill-Building Approach.” Chichester, West Sussex, United Kingdom: Wiley

positivistic approach is adopted for discussions and deductions on the debating issues, cultural and moral factors related to the emergence of these policies are not included in the study. Most importantly, the inability to review Chinese resources on the topics discussed around the trade war between the USA and China because the researcher does not speak Chinese is a remarkable limitation in the thesis.

The primary quantitative sources are websites where governments of the USA and China publish their economic data. In contrast, the secondary sources are the annual data published by Keystone International Economic Organizations (KIEO) such as the World Bank (WB) and the International Monetary Fund (IMF). There are also data quoted from newspapers, magazines, or academic articles. In the thesis, as qualitative data, mainly books and articles published in newspapers, academic or non-academic journals, were used as sources. The main motivation for adopting the qualitative approach, fundamentally, is "to understand the underlying causes," which is in line with the essential thesis question.

For this reason, data were analyzed by adopting thematic analysis, descriptive analysis, and content analysis methods. Accordingly, after the topics examined in themes were categorized under sub-headings,⁸⁶ the data related to the contents and findings were placed under the determined themes.⁸⁷ Finally, by applying the content analysis method, which is based on making inferences regarding the data that is objectively and systematically classified, deductions are made on the data to reveal the main idea examined around the main question.⁸⁸ In particular, content analysis has been applied to explore the subject in sub-titles such as technology, geopolitics, and economic implementations. Answers are sought for the following questions

⁸⁶ Virginia Braun, Victoria Clarke (2006). "Using thematic analysis in psychology." *Qualitative Research in Psychology*, 3(2), 77-101.

⁸⁷ Ali Baltacı (2019). "Nitel Araştırma Süreci: Nitel Bir Araştırma Nasıl Yapılır?". *Ahi Evran Üniversitesi Sosyal Bilimler Enstitüsü Dergisi (AEÜSBED)*. 5(2), 366-388. pp.379

⁸⁸ Ezel Tavşancıl, Ezra Aslan. (2001). "Sözel, Yazılı ve Diğer Materyaller için İçerik Analizi ve Uygulama Örnekleri." Istanbul. Epsilon Publishing.

especially: "What are the effects of technological progress on the process?", "What are the current and possible effects of the industrial policies followed in this regard?", "What are the possible policies and plausible consequences of economic practices in terms of their aims?", "Which developments are the reflections of geopolitical competition on this process?", How are these matters can be associated with international hegemony?"

1.4. STRUCTURE OF THE THESIS

This study, which essentially scrutinizes the question “which motivates between political hegemony and economic gain does trigger the escalation of protectionist policies like trade wars for great powers, ” introduces the research question and sub-questions, methodology, and structure. Then, it outlines the main concepts and topics discussed in the research area through the literature review. The second chapter deals with the theoretical perspective about protectionism and protectionist policies in history to form a theoretical and practical base. At this point, to make a connection between theoretical views and real examples, similar processes are investigated with historical examples from the 20th century. The second part of this chapter is based on the idea that trade wars are not just a tariff war, but currency wars are examined. The framework of exchange rate policies to gain economic and political advantage in the international arena is discussed. Since the thesis focuses on the USA-China trade wars, the currency wars that emerged following the 2008 Global Financial Crisis (GFC) and their effects on the competition are also discussed.

In the third chapter, the USA-China trade wars are examined in the relationship between economic gain and political hegemony. The arising and development process of the USA-China trade wars, the arguments put forward by the parties, and the economic consequences of this process are investigated. To analyze the economic results of the trade wars, focusing on the current account deficit to prove that trade wars are not a

struggle for economic or financial gain. From this point, perception and strategy of USA about China's exchange rate, technology and trade policies, the internationalization of its domestic currency, Renminbi (RMB), the effects of China-led establishments, military activities, and global projects like the Belt and Road Initiative (BRI), are explored. With this structure, this chapter analyses trade wars from the standpoint of hegemonic and geopolitical competition in the face of economic discourses.

Finally, the fourth section concludes the study by summarizing previous chapters and considering findings. This chapter aims to reveal the study results in the limits of main questions and sub-questions addressed the information and datum discussed in previous sections.

2. THEORETICAL AND CONCEPTUAL DEBATES ON TRADE WARS

In this chapter, firstly, the conceptual and theoretical background of trade and currency wars will be examined separately. Then, historical examples regarding the topic will be tackled. Besides, in the context of the relationship between economy and power, the concepts of welfare and hegemony will be explained from a theoretical and historical perspective.

2.1. TRADE WARS: A CONCEPTUAL INTRODUCTION

International trade means the exchange of goods and services among countries. The structural form of international trade affects the price and accessibility of each tradable goods or service. International trade plays a key role in many areas such as national and global income, employment, environment, and poverty alleviation as well. On the other hand, goods and services do not always flow completely free among countries because they can impose barriers to trade for various reasons.⁸⁹ With a realistic approach⁹⁰, Hans Morgenthau (1949) associated this kind of policy with acquiring more power on the global stage and the struggle for power among countries, which he defined as the main aim of politics.⁹¹ Accordingly, foreign affairs among nations are decisive, which is majorly taken form by states.⁹² In international politics, states aim to be strong like humankind's state of nature and consolidate their power. In line with this, they want to preserve, enhance and show their power on the global stage or international system.⁹³ It is why states try to maximize their power, security, and interests.⁹⁴

⁸⁹ Murat Çetinkaya, Gönül Muratoğlu (2019). “21. Yüzyılda Küresel Ticaret Savaşları”. In Murat Çetinkaya, Gönül Muratoğlu (eds), *Ticaret ve Kur Savaşları: Küresel Ekonomik Politığe Yansımaları*, 7-40, Ankara: Gazi Bookstore Inc. pp.9.

⁹⁰ For further info, please see the section of Literature Review in the previous chapter.

⁹¹ Hans J. Morgenthau. (1949). “Politics among Nations: The Struggle for Power and Peace”, 5th Edition (1978), Revised. New York: Alfred A. Knopf Inc. pp.52

⁹² Ibid, pp.12.

⁹³ Ibid, pp. 4.

⁹⁴ Ibid, pp. 11.

Here, in the context of foreign commercial policies and relations, the term “beggar-thy-neighbor policy” comes to the fore regarding maximizing the economic and political benefits of the states, which is objected to by Adam Smith (1776).⁹⁵ This concept is related to mercantilist (neo-mercantilist school) and protectionism in the global political economy. It refers to a country following an economic policy in its favor and to the detriment of other countries with commercial relations. Countries that follow these policies try to get a competitive advantage against their neighbors or countries in which they have commercial links through some trade practices and measures or exchange rate adjustments. Historically, the basis of these policies is to protect the national economy by diminishing imports and enhancing exports in order to increase the demand for domestic products compared to imported products.⁹⁶ It is also called protectionism, which means preserving national industries (or the agricultural sector) against the international competition by governments.⁹⁷

In this regard, it should be highlighted that there is argumentation in the literature of international economy between free trade and protectionism. Its origins date back to the Mercantilist era. In the historical process, free trade or protectionism policies become more common for a specific age. When the developments in the 20th century are taken into account, it is noteworthy that protectionist policies were applied excessively in the era between the two world wars. In the post-World War II (WWII) period, free trade developed, and tariffs and quotas were reduced with the regulations made within the framework of GATT (General Agreement on Tariffs and Trade). After the oil crisis in the 1970s, "new protectionist" approaches and tools emerged, such as invisible barriers. With the establishment of the WTO (World Trade Organization) in

⁹⁵ Adam Smith. (1776). “An Inquiry into the Nature and Causes of the Wealth of Nations.”, Book IV, Chapter III, Part II. London: Methuen & Co. 1904 5th. Edition .

⁹⁶ Peter Bondarenko (2019, 10 October). “Beggar-thy-neighbor policy.” Encyclopedia Britannica. Retrieved from: <https://www.britannica.com/topic/beggar-thy-neighbor-policy> (Accessed on: March 23, 2021).

⁹⁷ “Protectionism” (2020). Encyclopedia Britannica. <https://www.britannica.com/topic/protectionism> (Access: March 23, 2021).

1994, essential regulations were made to liberalize trade, and the globalization process in trade accelerated. After the global crisis in 2008, especially great powers like the USA started to re-introduce restrictions in their foreign trade. On the other hand, even though important steps have been taken in line with free trade by the establishment of the WTO, practices that conflict with free trade are also common. At this point, textile products form a notable example for which international trade is mostly restricted. This trend is followed by labor-intensive industrial products such as shoes, iron and steel, electronic tools, which are generally exported by developing countries.⁹⁸ Despite it being expressed that such practices adversely affect the industrialization of developing countries in the context of the superiority of free trade, protectionism may be implemented by governments in parallel to the discourse of pursuing effective international trade policies. Within this framework, international trade policies mean direct or indirect intervention of governments in international trade policy. In other words, these applications are the set of policies or regulations made by governments to limit or encourage foreign trade in line with the targets they set.⁹⁹

Correlatively, "**trade wars**" mean the carried out policies by countries to harm each other's commerce.¹⁰⁰ It can be loomed out of the rise of protectionist policies.¹⁰¹ Generally, the beginning of the usage of these policies by a country generates retaliation.¹⁰² In other words, when a country begins to implement a protectionist policy, some countries may also follow such policies against this country. It implies that protectionist policies could also systemically promote autarkic approaches, which mean self-sufficiency and restricted trade. On the other hand, the economic growth in the protectionist and retaliatory countries can slow down¹⁰³ because tariffs imposed on goods lead to the going up of costs of inputs and outputs. It would

⁹⁸ Nurdan Aslan (2020). "Uluslararası Ticaret Teorileri ve Politikaları: Ders Notları." İstanbul: Umuttepe Publishing. pp.111.

⁹⁹ Ibid. pp. 112.

¹⁰⁰ John Black, Nigar Hashimzade, Gareth Myles (eds.). (2012). "A Dictionary of Economics." Oxford: Oxford University Press.

¹⁰¹ Derya Yılmaz (2020). "From Protectionism to Trade Wars: Their Effects Observed Through Financial Markets." Yönetim ve Ekonomi Araştırmaları Dergisi , No: 18 (1) , 1-19. pp.2

¹⁰² Black, J. et al. (2012), Ibid, pp.353.

¹⁰³ Bondarenko (2019), Ibid.

trigger an increase in prices in the national market and inflation. That is why to reduce escalatory costs, unemployment rates would go up, and as a result, the production level would drop.¹⁰⁴ In the same vein, these policies and circumstances would also create pressure on stock prices. Stock prices mostly fall, and stock markets are negatively affected by this risky economic environment.¹⁰⁵ So, interest rates would go up because of the adverse relationship between interest rates and stock prices.¹⁰⁶ Depending on all these, trade wars could result in stagflation in economies.¹⁰⁷

Independently of all these possible consequences, there are many rationales for applying protectionism that lead to trade wars. These can be listed, basically, in 16 items. However, among all these, especially in strategically important sectors (telecommunications, finance, transportation, national defense, etc.), for maintaining national security by maintaining high production capacity, ensuring the redistribution of national income in favor of disadvantaged groups, contributing to the balance of payments (BoP) by reducing of trade deficit, creating more employment in the domestic market via supporting of domestic producers, preserving infant industries are prominent targets.¹⁰⁸ Within these frameworks, according to types of devices, protectionist implementations could be grouped into four main groups such as customs tariffs (duties), non-tariff barriers, export promotions like dumpings, counter-trade practices.¹⁰⁹ At this point,

¹⁰⁴ Mohammed Mikidadu. (2018). "Do Import Tariffs Generate Stagflationary Tendencies?," SSRN, Econstar. Rochester, New York. pp.2. Retrieved from: https://mpa.ub.uni-muenchen.de/95128/1/MPRA_paper_95128.pdf (Accessed on: March 23, 2021)

¹⁰⁵ Adam Shell. (2018, 24 March). "401(k): What stocks, industries are vulnerable in a trade war?" USA Today. Retrieved from: <https://www.usatoday.com/story/money/2018/03/24/stocks-industries-vulnerable-trade-war/452201002/> (Access: March 23, 2021)

¹⁰⁶ Md. Mahmudul Alam, Md. Gazi Salah Uddin (2009). "Relationship between Interest Rate and Stock Price: Empirical Evidence from Developed and Developing Countries." International Journal of Business and Management, Vol. 4(3), 43-51. pp.43.

¹⁰⁷ Mikidadu, M. (2018), Ibid.

¹⁰⁸ Maurice Obstfeld, Kenneth Rogoff (1996). "Foundations of International Macroeconomics." Cambridge, MA: MIT Press. pp. 199.

¹⁰⁹ Aslan (2020), Ibid, pp.114-115.

it should be stated that theft and counterfeiting frictions, which are remarkable matters on intellectual property rights, stand out, especially regarding technological protectionism controversial.¹¹⁰

In particular, the primary issue that comes to the fore in the USA-China trade wars is the size of the USA trade deficit against China and the size of the USA's total current account deficit.¹¹¹ However, it is necessary to consider this issue as a result of the international monetary system from an economic point of view and the struggle for hegemony from a political point of view. Therefore, before examining the USA-China trade wars, hegemony and the international monetary system should be examined theoretically, respectively.

2.2. THE RELATIONSHIP BETWEEN PROTECTIONISM AND HEGEMONY: A HISTORICAL PERSPECTIVE

The capitalist world economy has shown a cyclic structure since its revealing in the 16th century.¹¹² There are secular trends for world history from that age, which can be identified as systemic repetitions.¹¹³ This structure has been shaped by nation-states as the primary actor. While in some periods, only one state has prevailed over the others, in some periods, more than one state has been superior to others. When more than one state becomes more powerful in the international arena, great powers generally establish a balance of power among (mostly against) each other. In the era of these four centuries, protectionism or free trade has been on the rise from time to time. Namely, sometimes protectionism and sometimes free trade have become dominant on the global stage. Historically, these periods generally have followed each other cyclically. In

¹¹⁰ Naila Iqbal Khan (2019). "Global Trade War and its Impact on Trade and Growth: War between USA, China and EU." *International Journal of Innovative Technology and Exploring Engineering*, 8 (8), 939

¹¹¹ Dion Rabouin. (2021, 1 February). "Trump's trade war on China was a failure in every possible way." *Axios*. Retrieved: <https://www.axios.com/trump-trade-war-china-failure-6111a412-9458-438e-ab2f-a4b7481f89e3.html> (Access: September 15, 2021).

¹¹² Immanuel Wallerstein (1974) "The rise and future demise of the world capitalist system: Concepts for comparative analysis." *Comparative Studies in Society and History* 16: 387–415. pp.406

¹¹³ Richard E. Lee (2018) "Lessons of the Longue Durée: The Legacy of Fernand Braudel". *Historia Crítica*, No. 69. 69-77. pp.71

other words, international economic superiority and political dominance affect each other based on worldwide trade and power affairs.¹¹⁴

Historically, in the context of the trade-power relationship, even though when just one power's hegemony gains more weight in the global arena, free trade becomes common; when the balance of power is more determinant, protectionism comes to the fore.¹¹⁵ For example, the Navigation Act of 1651 was enacted by England as a protectionist measure specifically against Holland's commercial supremacy over Europe. It led to the escalation of the Dutch-British conflict. In the following eras, ongoing protectionist British policies began to evolve into free trade policies at the beginning of the second quarter of the 19th century. Then, the disseminating of free trade, thanks to its promotion by Britain, formed the basis of the Pax-Britannica¹¹⁶ era that started in those years. On the other hand, the new balance of power that emerged with the establishment of Germany in the 1870s was shaped by the effect of protectionist policies.¹¹⁷

In the same vein, while the economic rise of the USA before World War II was sprung from protectionist policies, after this war, the USA's economic policies shaped within the framework of its leading role in the international economy in parallel to its global hegemony. This global order is called Pax-Americana. The USA followed and supported free trade policies during this era.¹¹⁸ In other words, until the early years of

¹¹⁴ Elise S. Brezis (2020) Trade Policy and National Identity: "Why Keynes was opposed to Protectionist policies?." Department of Economics, Bar-Ilan University, Israel. pp. 4. Retrieved from: https://econ.biu.ac.il/sites/econ/files/working-papers/2020-02_0.pdf (Accessed on: April 2, 2021)

¹¹⁵ Mikhail Molchanov. (2012). "Hegemonic power. Encyclopedia of global studies." 788-91. Retrieved from: https://www.researchgate.net/publication/303365718_Hegemonic_power (Accessed on: April 3, 2021)

¹¹⁶ The Pax-Britannica was a period of global stability, in which British Empire, in the international arena, became the dominant state and played the role of hegemonic power. It refers to a relative peacetime among the great powers historically. For further info, please see: Douglas M. Johnston, W. Michael Reisman (2008). "The Historical Foundations of World Order." Leiden: Martinus Nijhoff Publishers.

¹¹⁷ Brezis (2020), Ibid, 4.

¹¹⁸ Brezis (2020), Ibid, 5.

the 1970s precisely, the USA followed the prompting policy of liberalism in international trade.¹¹⁹ In the early 1970s, following the collapse of the gold standard,¹²⁰ in which the US Dollar was pegged to gold in a specific value, the sudden rise in oil prices provoked regulations for labor and capital markets and the application of para-tariff non-tariff barriers in commercial affairs among countries. This situation was a sign of a renewed inclination towards policies like trade measures. Such interventionist practices brought forth stagnation and eventually the rise of protectionism in the 1970s and 1980s.¹²¹

As Cline (1980) stated, these developments implied the decline of the global hegemony of the USA.¹²² Although the political-economic approach led by Reagan in the USA (and also Thatcher in the UK) in the post-1980 based on the state's intervention in the economy and foreign trade as little as possible, the policies of the USA followed during this period were aimed at protecting its competitive power, especially with monetary and technology policies against Japan, since the USA administration identified Japan's industry, technology, and trade policies of that period as "neo-mercantilist" by reason of the increase in the budget deficit and the going up of the trade deficit with Japan. Similarly, Japan was showing up as an increasingly escalating economic superpower against the USA, with the economic miracle it had created. The USA demanded "reciprocity" in trade against Japan in this context. In this age, the USA administration claimed that more fair trade relations should be developed rather than more free trade in bilateral economic relations because liberal trade policies by the USA had caused to regress its superiority over Japan on the global stage. Nester (1990), who examines these assertions, defined that period as the rise of Japan in the face of

¹¹⁹ Arthur A. Stein. (1984), "The Hegemon's Dilemma: Great Britain, the United States, and the International Economic Order." *International Organization* 38 (Spring 1984): 355–386. pp.380.

¹²⁰ This matter will be tackled with the next chapter.

¹²¹ Fredrik Erixon, Razeen Sally (2009, 14 February), "Protectionism on the Rise." VOXEU. Centre for Economic Policy Research (CEPR). Retrieved from: <https://voxeu.org/debates/commentaries/protectionism-rise> (Accessed on: April 3, 2021)

¹²² Ray S. Cline (1980). "World Power Trends and US Foreign Policy for the 1980s." New York: Routledge.

the USA's hegemonic decline between 1971 and 1986. Even for him, Japan has taken over the hegemonic status of the USA, especially in East Asia, in those years.¹²³

In the same years, as a result of the combination of the begun reform process for opening to foreign markets in the communist bloc (the Soviet Union, China, and even Vietnam) with non-interventionist economic policies in the capitalist bloc, globalization was triggered by contrast with the above steps. In parallel, a new era started with the transition to the free market economy after the communist bloc collapsed in 1991. Then, Europe converted to a single market under European Union (EU) by removing tariffs for goods, services, and capital in 1992; and multilateral free trade area (FTA) agreements in North and South America were signed in 1994. The 20th century was completed with the adoption of the Euro as the official common currency by most EU countries in 1999. Under these conditions, in which globalization has been increasingly accelerating,¹²⁴ according to Brezis (2008), the USA's global superiority has continued up to 2008. As of that year, the balance of power has begun to establish in particular between the USA and China.¹²⁵

As this structural history analysis made in the macro sense shows, friction between many countries, which can be defined as a trade war, has occurred many times in history. In the next section, examples of trade wars that emerged in the 20th century will be presented.

¹²³ William R. Nester (1990). "Japan's Growing Power over East Asia and the World Economy: Ends and Means." Houndmills, Basingstoke, Hampshire and London: The Macmillan Press, pp.41-45.

¹²⁴ Jerry Frieden. (2012). "The Modern Capitalist World: A Historical Overview." In Mueller, D. (eds). Oxford Handbook of Capitalism. New York: Oxford University Press, pp.33-35.

¹²⁵ Brezis (2020), Ibid, 16.

2.3. TRADE WARS IN THE HISTORY

As tackled hereinbefore in the section about hegemonic rivalry, there are specific eras in the last four centuries in history. During some of them, tariff or exchange rate practices have been mainly on the rise, regionally, continentally, or globally. These practices and eras are as follows briefly:

A) SMOOTH-HAWLEY ACT

Smoot-Hawley Act, passed by the United States in 1930, was aimed at protecting farmers. For this purpose, former tariffs had been increased by 20% for 890 inputs and outputs related to agricultural production. On the other hand, these developments triggered a fierce trade war after Canada -as the largest agricultural trade partner of the United States- and some Western European countries adopted new tariffs for retaliation. In fact, the retaliatory effect of the tariffs came mainly after the bankruptcy of a leading Austrian Bank in 1931. Because of this event, the ongoing major financial crisis was much more globalized and negatively affected international trade. As a result, Germany restricted foreign exchange transactions; Chile and Hungary restricted imports.¹²⁶

Additionally, in Britain, the government and Bank of England (BoE), against Germany's step, announced that loans to German traders were frozen and the gold standard was abandoned. This development resulted in the depreciation of the British Pound, which was the international reserve currency of the period, and an increase in interest rates. These steps deeply shook the international economy. Severe disruptions occurred in international trade and payments due to the effect of foreign exchange constraints. World trade volume

¹²⁶ Surender Mor (2018). US-China Trade War: "Learning By Doing. Culture of Learning and Experimentation for Well-Being." Retrieved from: https://www.researchgate.net/publication/329753777_US-China_Trade_War_Learning_by_Doing (Accessed on: April 6, 2021).

decreased by 25% from 1929 to 1932. Mor (2018) pointed out that half of this rate stemmed from these tariffs. All these developments were crucial factors for the spread of such policies around the world. Correlatively, tariffs led to the deepening of the great depression's negative impacts. US trade with Europe decreased by 66% up to 1932. In the USA's trade with Europe, the going down of the export figure from 2,341 million USD to 784 million USD proves this view. Similarly, the going down of the import figure from 1,334 million USD to 390 million USD is another supportive evidence for this evaluation. Global trade also diminished by 66% from 1929 to 1934. Contrary to what might be hoped, the Smoot-Hawley Act has ended up with the deterioration of farmers' economic situation and even workers' one. Eventually, Smoot-Hawley Act was repealed in 1934. On the rise, regionally, continentally, or globally.¹²⁷

B) CURRENCY WARS

Currency war means the widespread use of economic policies and devices to impact the value of currencies by governments or central banks. In other words, for global competitiveness, the following competitive devaluation policies by many countries signify that there is a currency war.¹²⁸ Competitive devaluation is a monetary policy device to drop the international value of a national currency deliberately to go down the current account deficit. Since devaluations lead to fall export prices and escalate import prices in international markets, these policies are an incentive for export and a dissuasive for import. With these policies, the going up of national foreign currency savings is targeted.¹²⁹ It has been demonstrated that tit-for-tat policies related to currency values could be triggered due to tariff implementations.¹³⁰ Brown (2019)

¹²⁷ Ibid.

¹²⁸ Guillermo Valencia Arana (2014). Currency Wars: "The Lack of a Global Monetary System." (Master's thesis, ETH Zurich, Zurich, Switzerland). Retrieved from: <https://ethz.ch/content/dam/ethz/special-interest/mtec/chair-of-entrepreneurial-risks-dam/documents/dissertation/CurrencyWarFinal.pdf> (Accessed on: April 12, 2021)

¹²⁹ Parisa Fathi, Mustafa Ersungur S (2016). "The Impact of Competitive Devaluation on the Foreign Trade of Turkey." Business and Economics Journal. 7(4). 1

¹³⁰ Pham Thi Diem, Nguyen Thanh Vu, Van Thi Vang (2018). "International Trade and Currency War Consequences for Vietnamese Economy." International Journal of Research in Finance and Management. 2(1), 43-46. pp.44.

signifies that currency wars are a natural continuation of the tariff implementations to reduce the negative impact of customs duties and low economic growth.¹³¹ Namely, tariff and currency practices may cause escalating of each other in the international arena. These indicate an important interplay between policies which could be defined as currency war and trade -or tariffs- war.¹³² Indeed, there exist some differences between currency war¹³³ and trade (tariff) war, in particular for their results. While the former concept could be defined as a zero-sum game, the latter primarily refers to a process that results in adverse outcomes for each side.¹³⁴ In other words, in terms of economic gain, trade wars generally may cause economic loss for each country in the short or long term.¹³⁵ Conversely, during currency wars, in a short period, one side enhances its prosperity at the cost of economic loss of the other side.¹³⁶ Nevertheless, contrary to these probable short-term positive results, if currency devaluations implemented as retaliation by other countries reveal and become widespread, reaching the goal of enhancing economic welfare would become difficult for many countries.¹³⁷

Despite all these possible negative consequences, in the 20th and 21st centuries, currency wars have been on the escalation sporadically in the world. While currency wars escalated in two different periods in the world in the 20th century, another currency wars example emerged in the 21st century with the effect of the

¹³¹ Randy Brown (2019, 15 August). "In A U.S.-China Currency War, Who Wins?." Forbes. Retrieved from: <https://www.forbes.com/sites/randybrown/2019/08/15/in-a-us-china-currency-war-who-wins/#57c79209751c> (Accessed on: April 14, 2021)

¹³² Stéphane Auray, Michael B. Devereux, Aurélien Eyquem (2020). "Trade Wars, Currency Wars." NBER: National Bureau of Economic Research. pp.2.

¹³³ For more info, please see: Bénassy-Quéré, A. et al. (2018). Ibid. pp.3

¹³⁴ Bénassy-Quéré. et al. (2018). Ibid.

¹³⁵ Olivier Jeanne. (2018). "Currency Wars, Trade Wars and Global Demand." Johns Hopkins University. pp.1. Retrieved from: <https://www.aeaweb.org/conference/2019/preliminary/paper/zb8QakHn> (Accessed on: April 14, 2021)

¹³⁶ Ibid, 3.

¹³⁷ Adam Triggs, Warwick J. McKibbin (2020). "Global implications of a US-led currency war." Brookings Institute. Global Economy and Development Working Papers. No: 136. Retrieved from: https://www.brookings.edu/wp-content/uploads/2020/02/US_led_currency-war_final.pdf (Accessed on: April 14, 2021)

exchange rate and monetary policies followed by countries around the world after the 2008 GFC.¹³⁸ In the interwar period (1919-1939), many countries imposed constraints on foreign trade and payments or abandoned the gold standard to solve their balance of payments problems. Rickards (2011) describes this process as the First Currency War (1931-36), which developed because of tit-for-tat steps.¹³⁹ Initially, the Scandinavian countries and Finland decided to end their foreign trade relations with the UK by devaluing their gold-denominated currencies. Following this, 9 countries from Europe and Latin America started the practice of foreign exchange control in October 1931 to prevent gold outflow. Japan abandoned the gold standard system in December 1931. Other countries continued to use the gold standard and generally tried to gain currency advantage through devaluations. Apart from these, France, Germany, England, the Netherlands, Canada, and South Africa have imposed many new tariffs to compensate for their losses arising from currency devaluations.¹⁴⁰ In the post-WWII era, Britain devalued the currency in 1967 due to inflation. It sprang from the oversupply of Great Britain Pound (GBP) in the market, which was more than four times Britain's gold reserves. Following this, France took a similar step and wanted to negotiate leaving from the current international monetary system in that period with the USA and Britain. Hence, the period named as Second Currency War (1967-1987) by Rickards (2011)¹⁴¹ began. To solve this problem, in 1971, Smithsonian Agreement was signed, in which regular devaluations for the US Dollar were stipulated. However, after the devaluation of the British Pound in 1972, the tit-for-tat practices restarted. They eventually ended with the signing of the Louvre Accord in 1987, which stipulated that the US dollar would have been fixed at a different price.¹⁴²

¹³⁸ Jacek Pera. (2018). "The Third Currency War as an Effect of Post-Crisis Changes in the International Currency System. The Risk Aspect - the Case Analyses of Brazil." *Journal of Economics and Management*. 31. 149-180.

¹³⁹ James Rickards (2011). "Currency Wars: The Making of the Next Global Crisis." London: Penguin Books.

¹⁴⁰ Mor (2018), Ibid, 186.

¹⁴¹ Rickards (2011), Ibid.

¹⁴² Mehmet Bac, Horst Raff. (1997). "A theory of trade concessions." *Journal of International Economics* 42 (1997) 483-504. pp.484.

Lastly, after the 2008 GFC, a currency war started in 2009, particularly among the three largest economies in the world -the USA, the EU, and China- over the exchange rates among USD, Euro, RMB. Apart from these, Swiss Franc, Great Britain Pound (GBP – British Pound Sterling), Japanese Yen, Brazilian Real, other BRICS¹⁴³ countries' currencies, and particularly emerging East Asian countries' currencies were different crucial sides of this process.¹⁴⁴ In keeping with the theoretical perspective, Currency Wars after 2008 emerged as a result of the aiming at going up export by many countries in order to get rid of the economic shrinkage derived from the 2008 GFC, because these countries adopted the policies of diminishing the value of their national currencies to gain competitive advantage in foreign trade.¹⁴⁵

Accordingly, after the crisis started, the most critical development regarding this era was that FED (Federal Reserve Bank) began implementing Monetary Expansion Programs (Quantitative Easing – QE). The first one was \$600 billion in November 2008. The second QE program (QE2) started with a 75 billion US dollar bond purchase decision in November 2010. Its total amount in eight months reached 600 billion USD, and the third (QE3) was launched in September 2012 with a purchasing of \$40 billion of USD bonds. It was followed by another purchase of \$85 billion of long-term treasury bonds in USD. During this period, USD depreciated by 6.5%.¹⁴⁶ As a result, the currencies of most of the developing countries such as Brazil, Singapore, and South Korea were forced to gain value. For this reason, these countries encountered the necessity to interfere in the foreign exchange markets in order to preserve their financial stability and export

¹⁴³ Brazil, Russia, India, South Africa, China. For further info: Sandrine Amiel. (2019, 13 November). “What's BRICS for and does it still make sense?” Euronews answers. Euronews Retrieved from: <https://www.forbes.com/sites/randybrown/2019/08/15/in-a-us-china-currency-war-who-wins/#57c79209751c> (Accessed on: April 14, 2021)

¹⁴⁴ Rickards. (2011). Ibid.

¹⁴⁵ Joshua E. Keating (2010, 14 October). “Why Do Currency Wars Start?.” Foreign Policy. Retrieved from: <https://foreignpolicy.com/2010/10/14/why-do-currency-wars-start/> (Accessed on: April 15, 2021)

¹⁴⁶ Richard Portes. (2010). “Currency Wars and The Emerging Market Countries.” Center for Economic Policy Research, Brookings Institute (pp.47) Retrieved: https://www.brookings.edu/wp-content/uploads/2016/07/g20_portes.pdf (Accessed: April 18, 2021)

capacities.¹⁴⁷ On the other hand, concerning this issue, one of the most remarkable views is that this sort of measure is not enough for emerging countries except for the rising powers, which could rival advanced economies like China. As Włodarczyk (2014) noted, such artificial interventions directly or indirectly were not helpful to keep competitiveness for many developing economies. Nevertheless, these practices have triggered an escalation in the competition between advanced economies in terms of implementing them to accelerate economic growth. For this reason, post-2008 currency wars essentially were among China, Japan, the EU, the UK, and the USA, because China has become the global manufacturing center.¹⁴⁸

In this context, while this challenge is described by Keating (2010) as a process that is more related to political concerns than economic matters,¹⁴⁹ it was mainly related to the size of economies¹⁵⁰ and foreign and commercial affairs among these countries, according to Rickards (2011).¹⁵¹ In this era, currency wars, which started in 2009 and lasted until 2011, flared up again in 2013 and 2015.¹⁵² While the expansionary monetary policy followed by the Bank of Japan (BoJ) prepared the ground for developments in 2013,¹⁵³ the friction in 2015 was based on China's currency RMB to depreciate¹⁵⁴ by 2%, 1.6%, and 1.1%, respectively,

¹⁴⁷ "Possible 'currency war' to hamper int'l economy recovery." (2010, 18 October). Xinhua. Retrieved from: http://www.china.org.cn/business/china_yuan_reform/2010-10/18/content_21143561.htm (Accessed on: April 19, 2021)

¹⁴⁸ Robert Włodarczyk. (2014). "Is There a Global Currency War?." *Entrepreneurial Business and Economics Review*. 2. 21-30. pp.28

¹⁴⁹ Keating, J. E. (2010). *Ibid*.

¹⁵⁰ Size of an economy generally is measured by Gross Domestic Product (GDP), which is the total value of goods and services produced in a country, at the end of a certain era, usually in a year. For more info: "Definition of 'Gross Domestic Product'". (n.d.) *The Economic Times*. Retrieved from: <https://economictimes.indiatimes.com/definition/gross-domestic-product> (Accessed on: April 15, 2021)

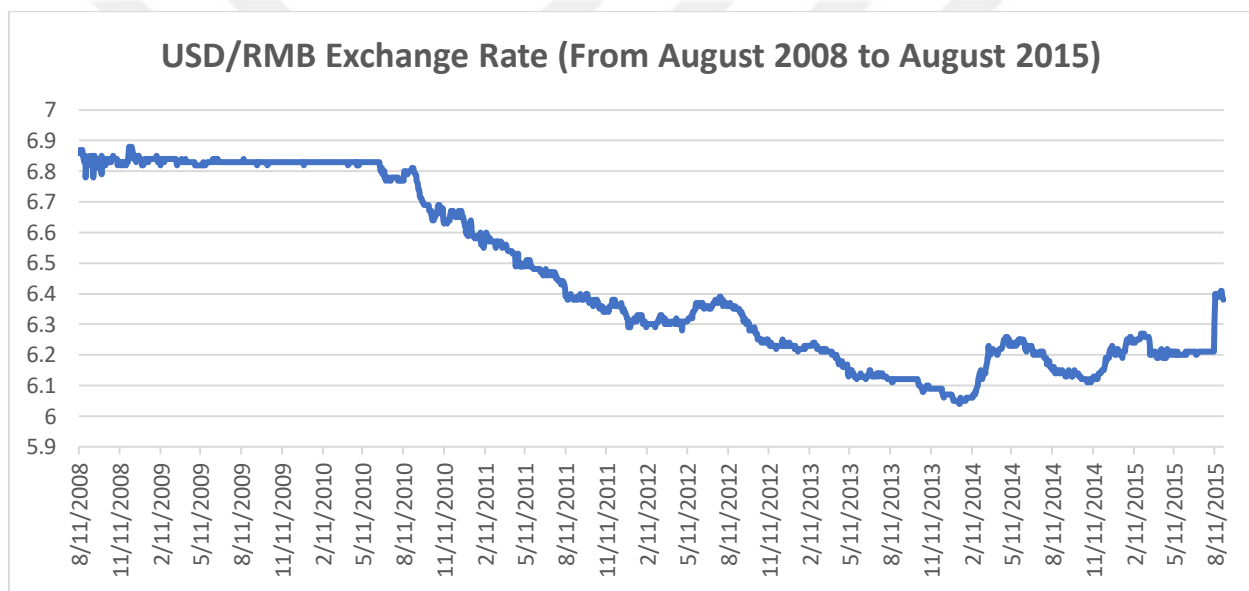
¹⁵¹ Rickards, J. (2011). *Ibid*.

¹⁵² Jane Foley (2010, 11 October). "Who's winning the currency wars?" *Reuters*. Retrieved From: <http://blogs.reuters.com/breakingviews/2010/10/11/whos-winning-the-currency-wars/> (Accessed on: April 20, 2021)

¹⁵³ Moran Zhang. (2013, 3 August). "Currency Wars 2013: China Takes Aggressive Stance On Currency Tension With Japan, As Yen Sinks To New Low Against The US Dollar." *International Business Times*. Retrieved From: <https://www.ibtimes.com/currency-wars-2013-china-takes-aggressive-stance-currency-tension-japan-yen-sinks-new-1117125> (Accessed on: April 21, 2021)

¹⁵⁴ James Mackintosh, (2015, 11 August). "China devaluation raises spectre of currency wars." *Financial Times*. Retrieved From: <https://www.ft.com/content/dfc1f2f2-4024-11e5-9abe-5b335da3a90e> (Accessed on: April 22, 2021)

between 11-13 August 2015, which can be seen from the graph below.¹⁵⁵ The currency wars between the USA and China have been the most prominent case for post-2008 currency wars in the historical process. In this regard, Warner (2019) emphasizes that there are discussions that the Third Currency War process will not be limited to the developments between 2008-2015. It continues during the President Trump period. Accordingly, the USA administration, led by Trump, has continued the Third Currency War process¹⁵⁶ by defending that the RMB should be appreciated, in other words, by advocating the weak USD policy against the RMB in order to provide an export advantage for the US domestic manufacturers.¹⁵⁷



Graphic 2.1.2.1: USD/RMB Exchange Rate between August 2008 and August 2015

In this era, the currency war between the USA and China arose due to the US administration of claims about China's exchange rate policy. Accordingly, the Chinese currency (RMB) has not been convertible in

¹⁵⁵ "Dollar Yuan Exchange Rate - 35 Year Historical Chart" (n.d.). Macrotrends. Retrieved: <https://www.macrotrends.net/2575/us-dollar-yuan-exchange-rate-historical-chart> (Accessed: April 22, 2021).

¹⁵⁶ This topic will be examined in the next chapter.

¹⁵⁷ Joshua Warner (2019). "Currency wars explained: a guide to devaluing currencies." Retrieved: <https://www.ig.com/en/trading-strategies/currency-wars-explained--a-guide-to-devaluing-currencies-190816> (Access: 22 September, 2021).

international markets. The People's Bank of China (PBoC) has opted to increase the volume of RMB in its national market in response to the FED's monetary expansion.¹⁵⁸ Besides, from the early 2000s, PRC has already started to give a massive amount of trade surplus, which has triggered a significant foreign capital inflow to this country. It could have already put pressure on the RMB's value to appreciate.¹⁵⁹ Such a case would have created a negative impact on China's export-led growth model. For this reason, the PBoC adopted the strategy of purchasing the US dollar directly from the excess export revenues. By doing these, Chinese officers aimed at protecting its export capacity, increasing revenues from export via maintaining the stability of the USD/RMB exchange rate. After these steps of China, the US administration claimed that this strategy of China led to the increase in USA's trade deficit against China by negatively affecting its competitiveness and defined the Chinese currency policy as currency manipulation.¹⁶⁰ Following these developments, President Obama used the term "Sputnik Moment"¹⁶¹ during the State of Union¹⁶² in January 2011, referring to China. As Bryan (2011) points out, this statement is critical as it shows that China has become a strategic threat to the US beyond its economic power like Japan from the late 1970s to the mid-1990s.¹⁶³ In addition, it reveals that the economic consequences of the currency wars are quite insignificant for both countries, especially the USA when compared with the hegemonic results.¹⁶⁴

¹⁵⁸ Pera. (2018), Ibid, pp.160.

¹⁵⁹ Paul Krugman (2009, 2 April). "China's Dollar Trap." New York Times. Retrieved from: <https://www.nytimes.com/2009/04/03/opinion/03krugman.html> (Access: July 7, 2021).

¹⁶⁰ Pera, J. (2018), Ibid.

¹⁶¹ Steven Bryan (2011, 6 March). "Currency Wars, or Why You Should Care About the Global Struggle Over the Value of Money." Origins, 4(6). Retrieved from: <https://origins.osu.edu/article/currency-wars-or-why-you-should-care-about-global-struggle-over-value-money/page/0/0> (Accessed: April 22, 2021).

¹⁶² The State of the Union is a speech delivered by the US president at a joint session of the US Congress outside the first year of his term. The State of the Union is not only about the state of the nation, but also allows the president to define the legislative agenda and national priorities. For further info, Daniella Diaz (2017, 28 February). "Why Trump's Tuesday speech isn't a State of the Union address." CNN. Retrieved from: <https://edition.cnn.com/2017/02/27/politics/donald-trump-address-not-state-of-the-union/> (Accessed: April 23, 2021).

¹⁶³ This topic will be examined in the next sub-section.

¹⁶⁴ The Sputnik moment means the time when people discern that they face with the threat of defiance and need to make more of their efforts not to fail to do. For further info, UsingEnglish.com. (n.d.) "What does Sputnik Moment mean?" Retrieved from: <https://www.usingenglish.com/reference/idioms/sputnik-moment.html> (Accessed: April 23, 2021).

C) THE USA-JAPAN TRADE WAR

As mentioned previously, in the 1980s, several politicians and many economists from the USA were considering Japan as a severe threat to the American economy. They were criticizing Japan's large trade surplus against the USA. They were arguing that the Japanese government had intensely intervened in the markets, deliberately in favor of Japanese companies via their industrial policies.¹⁶⁵ Accordingly, the Japanese government was restricting the activities of American companies in the Japanese domestic market and keeping the value of the Japanese Yen (JPY) artificially low against the US Dollar (USD) to provide a competitive advantage for Japanese companies in price against American firms. Moreover, these experts were defending that Japanese companies have been copying American companies' technologies or stealing trade secrets. In addition, the complex distribution system of American companies, groupings between Japanese companies, and some disincentive difficulties for doing business in the Japanese market were other prominent dispute causes. Based on these sorts of unilateral reasons, the USA Presidency should have been taken action. In line with this approach, the US administration accused Japan of not opening its domestic market sufficiently to American products. It also wanted from the Japanese government to make reforms that would make its market's work better to solve these kinds of problems. As a result, the United States coerced Japan to impose voluntary export restrictions (VER) on automobiles, auto parts, and steel products. At this point, the most crucial step of the USA administration was compelling Japan to raise the value of the Japanese Yen against the US Dollar almost twice as much in just one year in compliance with the "*Plaza Accord*," which was signed in 1985.¹⁶⁶

¹⁶⁵ For further info: Nester (1990), Ibid, 9-12.

¹⁶⁶ K. Ali Akkemik, Burcu Menteşoğlu-Tuncer (2019). "Çin-ABD Ticaret Savaşları Gölgesinde Çin Sanayi ve Teknoloji Politikaları." In Caner Bakır, Mustafa Yağcı. (eds), Çin Bilmecesi: Çin'in Ekonomik Yükselişi, Uluslararası İlişkilerde Dönüşüm ve Türkiye, 75-99, İstanbul: Koç University Publishing. pp.89.

Similarly, in 1989, under Section 301¹⁶⁷, the USA administration initiated Super 301 investigations regarding Japan's protectionist incentive policies in its domestic semiconductors market. Also, in parallel to claims that Japan provided an unfair competitive advantage over the USA of world trade volume and manufacturing standards, the USA administration took such a step; since Japan was extraordinarily increasing its market share globally in these years. The investigations were mainly focused on the use of dumping and aggressive pricing practices by Japan. Another substantial claim was that the increasing dependence of the USA on foreign countries, particularly Japan, in this strategic sector was creating a serious security risk. On the other hand, the USA's close allied relations with Japan during this period reflected the dilemma of this policy.¹⁶⁸

Nevertheless, in the years 1989-90, Super 301 investigations were initiated on the basis of allegations that at the cost of diminishing the USA's global competitiveness, Japan was promoting protective policies in its national market of not only semiconductors but also supercomputers, satellites, woods, and forestry products sectors.¹⁶⁹ Despite such developments, initially, the USA could not find a solution to its constantly growing trade deficit against Japan. Eventually, after the top-level intergovernmental negotiations started in 1993, a final agreement was reached in 1995, and the trade friction between the two countries ended. According to this agreement, Japan agreed to open its domestic markets more. With the effect of these agreements, Japan got into a prolonged economic recession of Japan since the early 1990s. Hence, the concerns of the USA on

¹⁶⁷ The Section 301 is a statute, which authorizes the US Trade Representative (USTR) to initiate investigations within the framework of allegations of unfair (trade or) competition caused by any foreign country. It entered into force in 1974 under the US trade law for determining of unfair trade practices by foreign countries and for authorizing retaliation policies against them. It consists of two type of procedure, as Super 301 and Special 301 types. While the former is more related to tariffs, the latter is more related to intellectual property rights violations. For more info, please see: Ka Zeng. (2004b). "Trade Threats, Trade Wars Bargaining, Retaliation, and American Coercive Diplomacy," Michigan: The University of Michigan Press. pp.55-56.

¹⁶⁸ Akkemik, Menteşoğlu-Tuncer (2019), Ibid.

¹⁶⁹ Zeng (2004b). Ibid. In the chapter of "U.S.-Japan Trade Conflicts: Semiconductors and Super 301." 127-167. Michigan: The University of Michigan Press. pp.129-147.

Japan disappeared by the end of the 1990s.¹⁷⁰ As can be seen from this example, trade wars can start as tariff or currency wars and turn into sorts of patent and technology wars involving intellectual property rights.¹⁷¹

D) OTHER TRADE WAR EXAMPLES FROM HISTORY

In addition to the Smoot-Hawley Act, in the pre-Second World War (WWII) era, Fordney-McCumber Tariffs (1922) is notable, legislated by the USA to protect farmers and agricultural products. As a trade war, Chicken Wars, Pasta Wars, and Banana Wars are remarkable in the post-war era. The first of these frictions was revealed in the 1960s because of Germany and France's imposing tariffs on US-origin chickens. The second one was initiated by reason of imposing tariffs on the USA's pasta imports from Europe in 1985. The last one started in 1993 due to European countries' customs duties on Latin America-origin bananas. Besides these, historically, Méline Tariffs Act (1892)¹⁷², Steel Wars (1969-1984) between the USA and Europe, and the Anglo-Irish Trade Wars (1932-1938) have importance as well.¹⁷³

¹⁷⁰ Akkemik, Menteşoğlu-Tuncer. (2019), Ibid.

¹⁷¹ For further info, please see, Hur (2018), Ibid, pp.394.

¹⁷² Mor. (2018). Ibid, 185-186.

¹⁷³ Anjala Kalsie, Ashima Aror (2019). US-China trade war: "The tale of clash between biggest developed and developing economies of the world." Management and Economics Research Journal, Vol. 5, pp.2.

3. TRADE WAR BETWEEN THE USA AND CHINA FROM 2018 TO 2020

In this chapter, firstly, the development process of Trade Wars between the USA and China, its economic consequences will be examined separately. Then its impacts on both sides' commercial and industrial policies, and its tie with hegemony and geopolitics, in particular within the framework of allegations of the USA administration against China, will be tackled.

3.1. GENERAL PERSPECTIVES OF THE COUNTERPARTIES IN THE TRADE WAR BETWEEN THE USA AND CHINA

The trade war between the USA and China basically springs from their policies against each other for both sides. Accordingly, the USA administration claims China triggers to form unfair trade conditions due to its trade policy. On the other hand, the Chinese government claims that the USA administration perceives China's economic rise as the greatest threat to its national security.¹⁷⁴ This section will discuss the claims and evaluations of the United States and China regarding each other's trade policies.

3.1.1. THE ASSERTIONS AND JUSTIFICATIONS OF THE USA

The driving motive behind Trump's protectionist policies is his criticism of globalization. Accordingly, in Trump's speech, he announced his candidacy for the presidential election, his opposition to the multilateral trade agreements was declared. He also expressed his intention to impose additional taxes on US-origin

¹⁷⁴ Kwan (2019b). "The China-US Trade War: Deep-Rooted Causes, Shifting Focus and Uncertain Prospects." Asian Economic Policy Review, 15, 55–72. pp.56.

firms investing overseas.¹⁷⁵ It is possible to categorize the Trump administration's foreign trade policies under three headings.¹⁷⁶

The first is to withdraw from multilateral trade agreements. At this point, the noteworthy is opting by Trump for bilateral trade agreements instead of multilateral ones. In this sense, the Trump administration ceded from the Trans-Pacific Partnership (TPP) agreement and, in turn, offered to sign a bilateral trade agreement with Japan, although it had definitely been rejected previously.¹⁷⁷ Essentially, in place of multilateral agreements, the Trump administration was aiming at gaining more bargaining power against trade partners with bilateral agreements. Also, another agreement that was subject to intense criticism from the Trump administration was NAFTA (North America Free Trade Agreement). This approach is based that international trade being a zero-sum game.¹⁷⁸ This general approach refers to the protectionist ideas seen in the USA-China trade wars.

The second crucial issue for the Trump administration's trade policy is the US trade deficit against China. Accordingly, China has been causing extra employment and production loss due to the cost disadvantage in the USA economy. Concerning the U.S. Trade Representative's on the President Policy Agenda of 2017, it is remarkable that from 2000 to 2016, the total foreign trade deficit of the USA increased approximately by doubling for manufacturing goods from USD317 Billion to USD648 at the cost of roughly 5 million

¹⁷⁵ Laurence Chandy, Brina Seidel (2016, 18 November). "Donald Trump and the future of globalization." Brookings Institute. Retrieved: <https://www.brookings.edu/blog/up-front/2016/11/18/donald-trump-and-the-future-of-globalization/> (Accessed on: July 25, 2021).

¹⁷⁶ Deborah Elms, Bhargav Sriganesh. (2017). "Trump's Trade Policy: Discerning Between Rhetoric and Reality." AJWH. 12 (247). 247-263. pp.255. Retrieved from: <https://static1.squarespace.com/static/5393d501e4b0643446abd228/t/59d30ef412abd9eb662573f0/1507004154576/Trump%E2%80%99s+Trade+Policy+Discerning+Between+Rhetoric+and+Reality-2.pdf> (Accessed on: July 10, 2021).

¹⁷⁷ Ibid. pp.255-256. (Accessed on: July 10, 2021).

¹⁷⁸ Geoffrey Gertz. (2017, 8 February). "What will Trump's embrace of bilateralism mean for America's trade partners?" Brookings Institute. Retrieved from: <https://www.brookings.edu/blog/future-development/2017/02/08/what-will-trumps-embrace-of-bilateralism-mean-for-americas-trade-partners/> (Accessed on: July 10, 2021).

employment losses in the manufacturing sector (the decline from 17,284,000 to 12,341,000). Also, during this era, the foreign trade deficit against China increased more than four times from USD81.9 Billion to USD334 Billion. Depending on these, from 2000 to 2015, the average income of the US population decreased from USD 57,790 to USD 56,516.¹⁷⁹ Significantly after China's participation in the WTO, the USA's industrial production grew below 10% compared with the previous period. The administration evaluates all these as that the existing worldwide trading system creates advantages to China at the expense of the USA economy.¹⁸⁰

Thirdly, depending on these two matters, the Trump administration has proposed retaliatory actions for the agenda based on regulation laws such as import duties, trade remedies, and Section 301 of the Trade Act 1974 and Section 232 of the Trade Expansion Act of 1962. Following this development, the Trump administration announced that it would apply Section 232 law to protect the domestic steel industry against China, which allows the USA to protect strategically evaluated industries like new customs duties and enhance existing tariffs by the administration. This article, which was enacted in 1962, towards national security issues.¹⁸¹ The interesting point here is that China's share of the USA's steel imports is only about 2%. In contrast, other developed countries such as Canada, Germany, and Japan, or emerging countries like Mexico and South Korea, have a higher share.

¹⁷⁹ “The President’s 2017 Trade Policy Agenda, Office of the U.S. Trade Representatives.” (2017). pp.5.

Retrieved from: <https://ustr.gov/sites/default/files/files/reports/2017/AnnualReport/Chapter%20I%20-%20The%20President%27s%20Trade%20Policy%20Agenda.pdf> (Accessed on: July 9, 2021).

¹⁸⁰ Ibid. pp.6

¹⁸¹ “Office of Public Affairs, Frequently Asked Questions: Section 232 Investigations: The Effect of Steel Imports on the National Security.” US Department of Commerce. Retrieved: <https://www.commerce.gov/news/fact-sheets/2017/04/frequently-asked-questions-section-232-investigations-effect-steel-imports/> (Accessed on: July 9, 2021).

Similarly, some scholars have propounded that such a step in the eyes of mentioned countries is an approach that may negatively affect the domestic automobile industry by creating additional costs in steel.¹⁸² Despite the objections, the Trump administration launched an investigation into China by using another law - Section 301- that went into effect in 1974 because of allegations of "theft" of intellectual property rights against China from the USA. Besides, China was making difficult entry to its domestic market for US-origin companies, although the USA was following a free-market policy against Chinese companies.¹⁸³

Lastly, in line with this, during his campaign era, Trump also stated that he would declare China a "currency manipulator" as the first thing after being elected president. This approach coincided with the claims of many politicians and domestic producers who have been accusing China of artificially devaluating its domestic currency to make exports cheaper and imports more expensive.¹⁸⁴ In the same vein, China's devaluation of its currency, the Renminbi, by 2% on August 11, 2015, was harshly criticized by Trump.¹⁸⁵ In short, the US-Trump- Administration's trade allegations against the Chinese government have been basically based on claims that China is causing to grow the US trade deficit by implementing mercantilist policies. Accordingly, China has been implementing protectionist policies through "currency manipulation, taxes like duties and tariffs, and non-monetary barriers to technology via restricting foreign companies' penetration into the domestic market or via compelling them technology transfer."¹⁸⁶ In addition to commercial applications such as subsidies and dumping, China has been following a technological

¹⁸² Daniel Griswold. (2017, 26 June). "Steeled for Politics: The Trump Administration's Steel Protections Won't Help U.S. Industry or Security." US News. Retrieved from: <https://www.usnews.com/opinion/economic-intelligence/articles/2017-06-26/donald-trumps-steel-protections-weaken-us-industry-and-security> (Accessed on: July 9, 2021).

¹⁸³ Elms, Sriganesh (2017). Ibid. pp. 258-259

¹⁸⁴ Doug Palmer, Ben Schreckinger. (2015, 10 November). "Trump vows to declare China a currency manipulator on Day One. Politico." Retrieved: <https://www.politico.com/story/2015/11/donald-trump-china-currency-manipulation-215679> (Accessed on: July 10, 2021).

¹⁸⁵ Cassandra Vinograd (2015, 12 August). "Donald Trump Takes Swipe at China's Move to Devalue Its Currency." NBC News. Retrieved: <https://www.nbcnews.com/politics/2016-election/donald-trump-takes-swipe-chinas-move-devalue-its-currency-n408326> (Access: July 10, 2021).

¹⁸⁶ Larry Light. (2017, 6 April). "Is China the unfair trade villain Trump says it is?." CBS News. Retrieved from: <https://www.cbsnews.com/news/china-unfair-trade-trump-xi-summit/> (Access: July 10, 2021).

mercantilism strategy with its protectionist policies, especially for the issues about intellectual property rights.¹⁸⁷

3.1.2. RESPONSES OF CHINA TO THE USA CLAIMS AND DEVELOPMENTAL PROCESS OF THE USA-CHINA TRADE WAR

As the continuation of all protectionist pre-election rhetoric and early practices, the Trump administration fired the wick of trade wars in 2018 by applying import and customs tariffs to 818 different product items imported from China that aggregate transaction value is \$34 billion. However, China started to impose in the ratio of 25% customs tariff on the product items, whose aggregate transaction value is 34 billion USD, to retaliate as well.¹⁸⁸ Upon these developments, the USA administration has included customs tariff practices in product items of Canada and the EU. But as a retaliation, both of them began to impose customs tariffs, whose aggregate transaction values are 12.8 billion USD and 7.2 billion USD, respectively. In 2018, the Trump administration menaced to enforce customs tariffs for key product items such as steel and soybean, for imported goods from China totaling up to 500 billion USD. Although these steps increase the probability of applying reciprocal customs tariffs for billions of dollars of product items, the Trump administration signified that the USA aims to reduce the USA's massive trade deficit with these tariffs and practices, in particular, stemming from China.¹⁸⁹ Besides, the administration launched trade wars by highlighting the issue of allegations about intellectual property rights violations by China, especially in high-tech industries, which has been described as the source of unfair trade conditions by the USA's

¹⁸⁷ Ed Gerwin (2018). "Confronting China's Threat to Open Trade." Progressive Policy Institute (PPI). 1-17. p.3-4. Retrieved: https://www.progressivepolicy.org/wp-content/uploads/2018/06/PPI_China_2018.pdf (Access: July 10, 2021).

¹⁸⁸ Evelyn Cheng. (2018, 15 June). "China announces retaliatory tariffs on \$34 billion worth of US goods, including agriculture products." CNBC. Retrieved: <https://www.cnbc.com/2018/06/15/china-announces-retaliatory-tariffs-on-34-billion-worth-of-us-goods-including-agriculture-products.html> (Access: June 10, 2021).

¹⁸⁹ Evans. (2019). Ibid.

administration.¹⁹⁰ However, in the face of all these claims of the USA, China published a document on September 24, 2018, due to the Trade Wars initiated by the Trump administration in parallel to his discourse during the election campaign. This public document has been reflected the official view of the Chinese government about the allegations made by the Trump administration as of the election period. So, it forms the main source to understand Chinese government's position against the escalation of the trade war with the USA, regardless of the date of publication of the document. The objections against the claims discussed in the document essentially focus on four different issues.¹⁹¹

First of all, the Chinese government stated that this approach of the USA harms multilateral trade and free trade in the international arena. Economic globalization, defined as the most important trend of our age, brings peace and development to the world. Therefore, when economic globalization is rejected, isolationist tendencies rise. In such a case, peace, prosperity, development, and stability would be threatened. So, the best option for China-USA is to maintain the "win-win" mentality. However, China government has defined this process as a matter of national pride. It stated that it had been determined to protect his fundamental interests, and in the case there exists a necessity, it would respond to the steps of the USA by retaliation. The Chinese administration that is described the USA's actions in this direction as unilateral protectionism also opposed the unipolar global hegemony of the USA in the document.¹⁹²

Secondly, as the two largest economies in the world with the USA economy, China pointed out the view that the trade dispute between them would create a serious global problem. In line with this, economic and

¹⁹⁰ Ibid.

¹⁹¹ "Full Text: The Facts and China's Position on China-U.S. Trade Friction." (2018, 24 September). Xinhua. Retrieved from: http://www.xinhuanet.com/english/2018-09/24/c_137490176.htm (Accessed: July 25, 2021).

¹⁹² "The Facts and China's Position on China-US Trade Friction." (2018). Information Office of the State Council The People's Republic of China. 1-72. pp.68-69. Retrieved (Accessed on: July 26, 2021): <https://china.usc.edu/sites/default/files/article/attachments/Chinese%20WP%20Sino-Am%20Trade.pdf>

commercial cooperation must be targeted on the basis of mutual respect and win-win understanding. For this purpose, it has been argued that in order to establish a reciprocally balanced, inclusive, and mutually beneficial trade order, bilateral relations should be further improved according to the rule of equality and the principles determined by the WTO. It has been indicated that within this framework, negotiations for a bilateral investment agreement and bilateral FTA should be initiated. In the document, open, transparent, inclusive, and non-discriminatory multilateral trade is advocated in the light of WTO rules. To this end, in the global trade statistics system, some reforms should be made by taking into account the global value chain and added value. The Chinese administration has rejected unilateralism and protectionism. It emphasized that cooperation and liberalization in international trade should be supported through organizations such as the G-20 and APEC in the world.¹⁹³

Thirdly, in the face of the USA's claims for intellectual property rights (IPR) violations, China claimed that it attaches great importance to protecting intellectual property rights. The government propounded that as a reflection of the efforts to improve the IPR system, efforts are being made to improve the quality and efficiency of IPR related investigations by progressing their legal regulations. Besides, China underlined its determination to protect foreign companies' legal rights to establish open and transparent foreign relations with them. It has also been highlighted that it is desired to create a market environment in which foreign-origin enterprises operating and investing can provide better quality service. According to this document, due to the improvement of the legal system, a business environment in the domestic market would be established in concordance with the rules stipulated by WTO.¹⁹⁴

¹⁹³ Ibid. pp.69-70

¹⁹⁴ Ibid. pp.70.

Last but not least, the Chinese government remarked that reforms for opening up in the national economy would continue. In the document, it was signified once again that in the Chinese economy, as a socialist country, the market would be more decisive in the distribution of resources based on the basis of the Chinese development model and the rule of law. In addition, it has been signified that the government is determined to share new opportunities with other countries in order to further modernize its economy as a requirement of its innovation-centered development policy. To this end, by adopting policies to promote trade, the liberalization of investments and the reduction of tariffs market access, especially through the service sector, would be facilitated according to China's allegation. Therefore, the negotiations for multilateral agreements should be accelerated and forced to enter. At this point, particularly in the scope of the Belt and Road Initiative (BRI), multilateral cooperation among countries as a part of mutual benefit principle, new opportunities must be created by making progress in certain areas such as policy, infrastructure, trade, finance and peer to peer.¹⁹⁵

In short, in the document, the Chinese government emphasizes the need to enhance global cooperation based on the approach of mutual benefit in the international arena. In international relations, protectionist policies in the principle of equality and reciprocity have been defined as the cold war mentality. Besides, beggar-thy-neighbor policy, power-centered approaches, and zero-sum game-based policies are rejected. In the document, the aim of protecting and improving the international order has been underlined for ensuring world peace.¹⁹⁶ Despite all this rejective rhetoric of the Chinese administration against protectionist applications, the trade war between the USA and China has started as a result of retaliatory steps of the Xi

¹⁹⁵ Ibid. pp.70-71.

¹⁹⁶ Ibid. pp.71-72.

Jinping administration to implement tariffs of the USA against China. In terms of important events, the chronological developments of the trade wars exist in the Appendix of the study.¹⁹⁷

3.2.ECONOMIC RESULTS OF USA-CHINA TRADE WAR: IN THE FACE OF THE DOLLAR HEGEMONY PROFIT OR LOSS?

In Figure 3.2.1 below, the export, import, and external balance figures of the leading countries in international trade in billion USD demonstrated as of the end of 2017. Accordingly, it is seen that while the country with the highest foreign trade deficit in the world was the USA, and the country with the highest foreign trade surplus was the PRC. The USA's total exports at the end of 2017 were \$1.546 trillion, whereas its imports were \$2.408 trillion. So, the foreign trade deficit reached \$862 billion. On the other side, China's total exports at the end of 2017 were \$2.263 trillion, while imports were \$1.844 trillion. For this reason, its foreign trade surplus reached \$419 billion.¹⁹⁸



Graphic 3.2.1: Foreign Trade Volumes of Leading Economies in 2017 – Source: World Trade Organization

¹⁹⁷ Akkemik, Menteşoğlu-Tuncer. (2019). Ibid. pp.98-99.

¹⁹⁸ “Metadata: Merchandise Imports by Product and Merchandise Exports by Product.” World Trade Organization. Retrieved From: World Trade Organization <https://data.wto.org/> (Accessed on: July 17, 2021).

Despite the USA administration following a protectionist policy by citing this huge trade deficit against China, these steps resulted in so different economically from what the Trump administration anticipated. Accordingly, there was no significant improvement in both the USA trade deficit and the current account deficit in the BoP. Specifically, in 2018, the USA trade deficit enhanced, contrary to the expectations of the administration.¹⁹⁹ In 2017, the largest share in the annual trade deficit of the USA belonged to China,²⁰⁰ and in 2018, this country maintained its position via rising its share by %11.6 compared to the previous year.²⁰¹ Accordingly, the USA's exports to China went down by 5% compared to the year earlier, while its imports went up by 6%.²⁰² In addition, the US's trade deficit with the World in 2018 was more at a rate of 10.4% than in 2017.²⁰³ On the other hand, in the following year (2019), the US trade deficit with the World diminished by 1.7% compared to the previous year. The remarkable point here is that D. Trump's view has been falsified because, in his opinion, the reduction in the USA trade deficit would have provided a sustainable growth of 3% on an annual basis. However, while the USA economy grew by 2.9% in 2018, the year USA's trade deficit widened, the US economic growth remained at 2.3% in 2019, the year USA's trade deficit diminished. Thus in both years, the economic growth rate of the USA was below the 3% target set by President Trump.²⁰⁴

¹⁹⁹ Jones, C. (2020, 30 September). "Trump isn't delivering on reducing the trade deficit." Forbes. Retrieved: <https://www.forbes.com/sites/chuckjones/2020/09/30/trump-isnt-delivering-on-reducing-the-trade-deficit/?sh=17690eb35f39> (Access: July 27, 2021).

²⁰⁰ "U.S. Trade with Major Trading Partners." (2018, 18 December). US Congressional Research Service. Retrieved from: <https://fas.org/sgp/crs/row/R45434.pdf> (Access: July 27, 2021).

²⁰¹ Scott, R. E. (2019, 7 March). "Record U.S. trade deficit in 2018 reflects failure of Trump's trade policies." Economic Policy Institute. Retrieved: <https://www.epi.org/blog/record-u-s-trade-deficit-in-2018-reflects-failure-of-trumps-trade-policies/> (Access: July 27, 2021).

²⁰² Schott, J. J., Lu, Z. L. (2019, 8 March). "US Trade Deficit with China Keeps Growing, Even with Tariffs." Peterson Institute for International Economics (PIIE). Retrieved: <https://www.piie.com/research/piie-charts/us-trade-deficit-china-keeps-growing-even-tariffs> (Access: July 27, 2021).

²⁰³ Scott, R. E. (2019, 7 March). Ibid. (Access: July 27, 2021).

²⁰⁴ "US trade deficit shrinks in 2019 for first time in six years." (2020, 5 February). CNBC. Retrieved from: <https://www.cnbc.com/2020/02/05/us-trade-deficit-december-2019.html> (Access: July 27, 2021).

There are similarly remarkable points on the PRC's figures for 2018 and 2019. The first point to be noted in terms of China is its total trade surplus in 2018, which was at its lowest level since 2013. In the same year, China's total trade surplus was 351.76 Billion USD, while its imports increased by 15.8% and its exports increased by 9.9%. Within these figures, China's imports from the USA increased by 0.7%, and exports to the USA increased by 11.3%. According to the figure announced by the Chinese government, that year, China's trade surplus with the USA reached 323.32 Billion USD, going up by 17% compared to the previous year. It has been the highest figure since 2006.²⁰⁵ In 2019, China's trade surplus with the US diminished from 323.33 Billion USD in 2018 to 295.8 Billion USD, according to figures released by Reuters through the PRC customs. In 2019, China's total trade with the USA fell by 14.6%, such that China's exports and imports with the USA went down by 12.5% and 20.9%, respectively.²⁰⁶

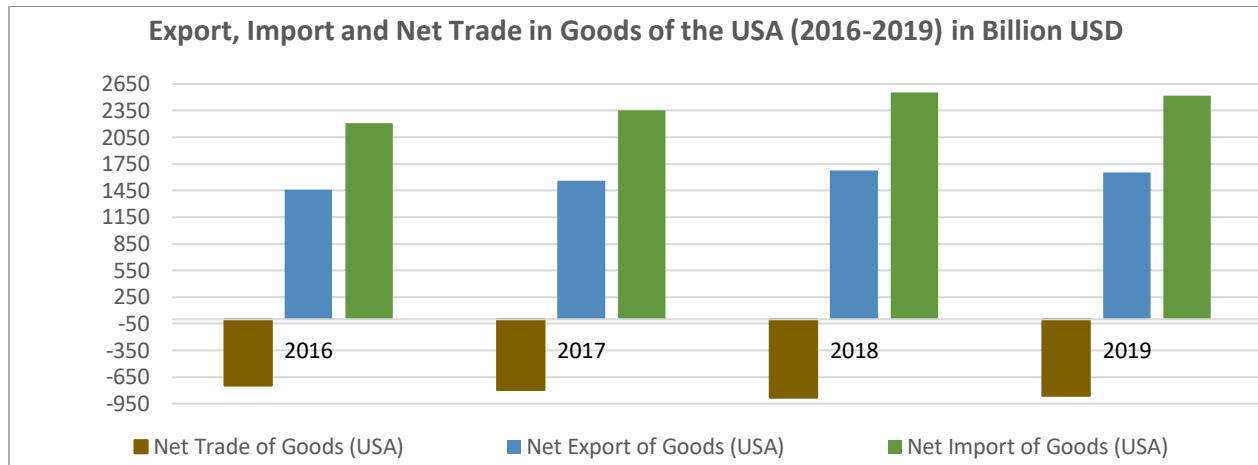
In spite of these figures announced by China, The U.S. Census Bureau has announced that in 2018, the USA's merchandise trade deficit with China went up by 43.6 Billion USD compared to the previous year and reached 419.2 Billion USD. It is a new record level. Approximately 250 Billion USD of this figure stems from the manufactured product trade.²⁰⁷ In 2019, the figures announced by the U.S. Trade Representative showed that despite the diminishing of USD 73.7 billion in the merchandise trade of the USA with China. Similarly, there was a deficit of 345.2 billion USD in the total trade deficit of the USA with China. However, in contrast to this figure, the USA has given a surplus of 36.4 billion USD in the service trade with China. These figures meant a 17.6% diminishing of its merchandise trade deficit and a 4.1% diminishing of its service trade surplus compared to the previous year. In 2019, the imports of the

²⁰⁵ Tan, H. (2019, 13 January). "US trade deficit with China grows to a record and it's likely even worse than the data show." CNBC. Retrieved from: <https://www.cnbc.com/2019/01/14/china-2018-full-year-december-trade-exports-imports-trade-balance.html> (Access: July 27, 2021).

²⁰⁶ "China's 2019 trade surplus with U.S. narrows to \$295.8 billion vs \$323.3 billion in 2018." (2020, 14 January). Reuters. Retrieved: <https://www.reuters.com/article/us-china-economy-trade-usa-idUSKBN1ZD0JW> (Access: July 27, 2021).

²⁰⁷ Scott, R. E. (2019, 7 March). Ibid. (Access: July 27, 2021).

USA from China diminished by 16.2% with 87.6 billion USD, and the exports diminished by 11.5% with 13.8 billion USD. Nevertheless, China was the 3rd largest exporter and the largest importer of the USA as of the end of 2019.²⁰⁸



Graphic 4.3.1: Net Export, Net Import, and Net Trade in Goods of the USA and China – Source: World Bank²⁰⁹

In summary, although trade wars had started at the beginning of 2018, the foreign trade deficit of the USA for merchandise trade increased from \$807.5 billion to \$891.3 billion between 2017 and 2018. It decreased from this figure to only \$866.0 billion in 2019.²¹⁰ Within this deficit, the volume of bilateral trade with

²⁰⁸ “The People's Republic of China: U.S.-China Trade Facts. U.S. Trade Representative.” (n.d.). Retrieved: <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china> (Access: July 27, 2021).

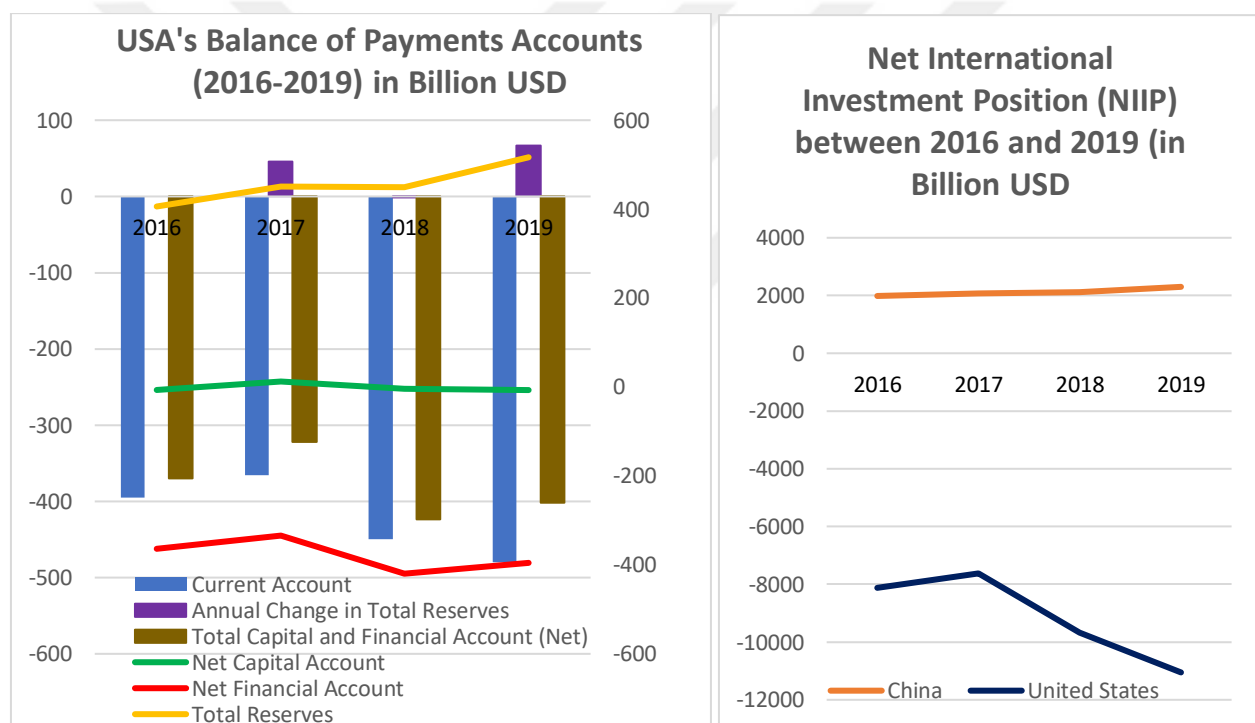
²⁰⁹ “Net trade in goods (BoP, current US\$) - China, United States.” (n.d.). The World Bank Data. Retrieved from: <https://data.worldbank.org/indicator/BN.GSR.MRCH.CD?end=2019&locations=US&start=2016> (Access: July 28, 2021).

“Goods exports (BoP, current US\$) - China, United States.” (n.d.). The World Bank Data. Retrieved from: <https://data.worldbank.org/indicator/BX.GSR.MRCH.CD?end=2019&locations=US&start=2016> (Access: July 28, 2021).

“Goods imports (BoP, current US\$) - China, United States.” (n.d.). The World Bank Data. Retrieved from: <https://data.worldbank.org/indicator/BM.GSR.MRCH.CD?end=2019&locations=US&start=2016> (Access: July 28, 2021).

²¹⁰ For the year 2019 info: 2019 Trade Gap is \$616.8 Billion. Bureau of Economic Analysis (BEA). (Access: July 28, 2021). Retrieved: <https://www.bea.gov/news/blog/2020-02-05/2019-trade-gap-6168-billion>. Also the year 2019 info, 2018 Trade Gap is \$621.0 Billion. Ibid. Retrieved: <https://www.bea.gov/news/blog/2019-03-06/2018-trade-gap-6210-billion> (Access: July 28, 2021).

China was -375.2 billion \$, -419.2 billion \$, and -345.6 billion \$, respectively, over the years.²¹¹ Namely, China's share of the USA merchandise trade deficit was 46.46%, 47.03%, and 39.90% between 2017 and 2019, respectively. Consequently, China's share in the foreign trade deficit decreased by more than 7% after the trade wars, but the decrease in the total foreign trade deficit remained only around 2.80%. If these figures pay regard to the total trade deficit, it reveals that the USA is far from solving the trade deficit problem with China and the rest of the world. So, all of this has been interpreted as the USA-China trade wars ending contrary to the Trump administration's expectations.²¹²



Graphic 4.3.2 (a): The Balance of Payments Accounts of the USA from 2016 to 2019 in Billion USD

Graphic 4.3.2 (b): Net International Investment Position of the USA. and China from 2016 to 2019 in Billion USD

²¹¹ For 2017 data, "Top Trading Partners - December 2017. United States Census Bureau." (Access: July 28, 2021). Retrieved: <https://www.census.gov/foreign-trade/statistics/highlights/top/top1712yr.html>. Moreover, for 2018 data: "Top Trading Partners - December 2018." Ibid. Retrieved: <https://www.census.gov/foreign-trade/statistics/highlights/top/top1812yr.html>. Lastly, for 2019 data: "Top Trading Partners - December 2019." Ibid. Retrieved: <https://www.census.gov/foreign-trade/statistics/highlights/top/top1912yr.html> (Access: July 28, 2021).

²¹² "How China Won Trump's Trade War and Got Americans to Foot the Bill." (2021, 12 January). Bloomberg. (Access: July 28, 2021). Retrieved from: <https://www.bloomberg.com/news/articles/2021-01-11/how-china-won-trump-s-good-and-easy-to-win-trade-war>

As can be seen from Figure 4.3.1 above, in the period of 2016-2019, when the trade wars took place, the level of trade deficits of the USA generally remained at the same level in spite of the relative increases and decreases. Similarly, in the same period, both the current account and the capital and financial account in the balance of payments are negative, as shown in Figure 4.3.2 (a).²¹³ The other remarkable discussion on the USA's trade deficit is its lack of savings, which many leading economists like Stiglitz tackle.²¹⁴ This argument parallels the USA's negative Net International Investment Position (NIIP) in Figure 4.3.2 (b).²¹⁵ The NIIP demonstrates a country's global financial situation via the balance between a country's foreign assets and liabilities. Foreign assets are assets owned by resident economic actors in a country, while external liabilities are domestic assets owned by non-resident actors. If the NIIP is greater than zero, that country is a net creditor and a net debtor if it is less than zero. Accordingly, the USA is a net debtor country in the international arena.²¹⁶ As shown in the same graph, China's NIIP is positive, which means China is the world's net creditor country. It is why China has the opportunity to increase the use of its currency.²¹⁷ The importance of this topic reveals when it is taken into account that China has been rising on the global stage, just like Japan did in the 1980s, poses the biggest threat in the face of the United States administrations. From this point, the threats posed by China's rise in the face of the USA's hegemonic position have a meaning rather than economic profit or loss. Hence, the next section will examine the controversial topics on trade wars such as currency, technology, internationalization of the Renminbi, and geopolitics.

²¹³ "The World Bank Data." Ibid. (Access: July 29, 2021).

²¹⁴ Michael Pettis. (2018, 8 August). "The U.S. Trade Deficit Isn't Caused by Low American Savings." Carnegie Endowment for International Peace. Retrieved: <https://carnegieendowment.org/chinafinancialmarkets/77009> (Access: July 29, 2021).

²¹⁵ "International Investment Position by Indicator: Net International Investment Position (With Fund Record), US Dollars." International Monetary Fund (IMF). Retrieved: <https://data.imf.org/regular.aspx?key=62805745> (Access: July 29, 2021).

²¹⁶ "What is the Net International Investment Position (NIIP)?" Retrieved from: <https://corporatefinanceinstitute.com/resources/knowledge/economics/net-international-investment-position-niip/>. (Accessed on: June 23, 2021).

²¹⁷ David Marsh. (2018, 18 July). "China's international investment position." Official Monetary Financial Institution Forum (OMFIF) Retrieved: <https://www.omfif.org/2018/07/chinas-international-investment-position/> (Access: July 29, 2021).

3.3. THE ACTUAL MEANING OF THE USA-CHINA TRADE WARS: POLITICAL CONCERNS BEHIND ECONOMIC REASONS

Many different factors have been fundamentally influential in the emergence of the USA-China trade wars. According to some scholars, global technological supremacy is the most crucial trigger in the conflict between countries as two rival great powers. However, the view that the current friction between the two countries stems from geopolitical competition is also an issue that needs to be taken into account. Finally, the concerns of the USA administration on China's protectionist policies, such as currency manipulation²¹⁸ and the internationalization of China's domestic currency, the Renminbi, are topics, which should not be ignored in this context; since the USA-China trade war is fundamentally a financial war for some specialists.²¹⁹ Each of these sub-titles demonstrates that the USA-China trade wars are a struggle for hegemony. This is why, in this section, the USA-China trade wars will be discussed in terms of China's mercantilism and currency manipulation discussions, technological competition, the internationalization of the Renminbi, and geopolitical conflicts.

3.3.1. CURRENCY POLICY AND MERCANTILISM DEBATES DURING THE USA-CHINA TRADE WARS: CHINA'S RISING

During the election campaign, President Trump stated that the first action he would take during his presidency would be to label China as a currency manipulator. However, making this happen immediately

²¹⁸ Marianne Schneider-Petsinger, Jue Wang, Yu Jie, James Crabtree. (2019). "US-China Strategic Competition: The Quest for Global Technological Leadership." Chatham House: The Royal Institute of International Affairs. Research Paper: Asia-Pacific Programme and the US and the Americas Program - November 2019. 1-43. pp.2.

²¹⁹ Julian Gewirtz (2019, 17 December). "Look Out: Some Chinese Thinkers Are Girding for a "Financial War". Politico. Retrieved: <https://www.politico.com/news/magazine/2019/12/17/look-out-some-chinese-thinkers-are-girding-for-a-financial-war-086610> (Access: July 30, 2021).

was not easy under the law.²²⁰ Nevertheless, the President continued to propound that the Chinese government was engaged in currency manipulation. In his opinion, China was gaining a competitive advantage in exports by selling the Renminbi and buying USD-denominated treasury bonds in return, making the domestic currency cheaper against the USD.²²¹ As underlined in the previous chapter, similar criticisms from the USA towards this policy of the Chinese government goes back to the 2008 GFC period. Even Paul Krugman (2010) underlines that the debates on China's manipulation of its domestic currency started in 2003, when China had a foreign trade surplus for the first time, and gradually has grown.²²² Besides, he identified China's this policy to accumulate USD, which followed more intensive, especially by the 2008 GFC era as "Dollar Trap" in an article in 2009. Since the return of this sort of investment vehicle was quite low, relatively, China could have suffered a severe economic loss in the case of the great depreciation of the USD.²²³

In parallel to this policy, China has accumulated more than 3 trillion USD in its forex reserves.²²⁴ The PRC currently has an outstanding amount of foreign exchange reserves globally.²²⁵ In the past fifty years, China has reached a higher level than any other country in terms of being in possession of foreign currency reserves. As of 2011, China's forex reserves reached more than 55 times any country's reserve that refers to the average level. Suppose a comparison is made to understand the magnitude of this figure. In that case, it should be paid regard that the total forex reserve of Japan, which is the country that has accumulated the

²²⁰ Michelle Ye Hee Lee. (2016, 15 December). "Trump's outdated claims that China is devaluing its currency." The Washington Post. Retrieved from: <https://www.washingtonpost.com/news/fact-checker/wp/2016/12/15/trumps-outdated-claims-that-china-is-devaluating-its-currency/> (Access: July 30, 2021).

²²¹ "Trump accuses China of 'manipulating' its currency." (2018, 21 August). BBC. Retrieved: <https://www.bbc.com/news/business-45251091> (Access: July 30, 2021).

²²² Paul Krugman. (2010, 14 May). "Taking On China." New York Times. Retrieved from: <https://www.nytimes.com/2010/03/15/opinion/15krugman.html> (Access: September 22, 2021).

²²³ Paul Krugman (2009, 2 April). Ibid. (Access: September 22, 2021).

²²⁴ Paul Wiseman. (2016, 29 December). "Trump vows to name China a currency manipulator: What you need to know." Global News. Retrieved from: <https://globalnews.ca/news/3151399/trump-china-currency-manipulator/> (Access: July 30, 2021).

²²⁵ Kenneth Rapoza. (2011, 15 October). "China's Cash Position Swells to Record High." Forbes. Retrieved from (Accessed on: 2021, 7 July): <https://www.forbes.com/sites/kenrapoza/2011/10/15/chinas-cash-position-swells-to-record-high/?sh=6ad2989cfc9b>

most forex reserves after China, was around 1.2 trillion USD as of 2016.²²⁶ Even this figure equals 40% of the total forex reserves of China, which was 3.1 trillion USD in the same year.²²⁷ China's foreign currency reserves are an outstanding issue that is the source of "currency manipulation" assertions of the USA about China, especially during the trade wars after 2018. These assertions have sprung from that China's forex reserves are mostly assets in USD.²²⁸

President Trump supported the view in line with these claims specifically based on the fact that the US Dollar depreciated by 10% between April and August in 2018, escalated by the trade wars.²²⁹ As a continuation of this rhetoric, the Trump administration has officially labeled the PRC a "currency manipulator" on August 5, 2019, a day after China allowed the Dollar/Renminbi parity to depreciate above 7 for the first time since 2008. This development can be considered as that China has been trying to reduce the cost of tariff implementations as a result of this policy.²³⁰ In fact, this issue has been influential on the basis of China's export advantage and economic growth as a result of its mercantilist approach.²³¹ Accordingly, China succeeded in maintaining its export-led growth and giving a tremendous trade

²²⁶ For China please see: "Annual Report of the State Administration of Foreign Exchange - 2016." (2016) State Administration of Foreign Exchange, 1-194. pp 122.

For Japan please see: "International Reserves / Foreign Currency Liquidity" (n.d.). Ministry of Finance, Japan. Retrieved from: https://www.mof.go.jp/english/international_policy/reference/official_reserve_assets/index.htm

To calculate forex reserve on an average please see: "Currency Composition of Official Foreign Exchange Reserve." IMF. Retrieved from: <https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4> (Accessed on: June 22, 2021).

²²⁷ "Total reserves (includes gold, current US\$) - China, Japan. World Bank)." Retrieved From (Accessed on: June 22, 2021): <https://data.worldbank.org/indicator/FI.RES.TOTL.CD?end=2019&locations=CN-JP&start=2019&view=map>

²²⁸ David Lawder, Andrea Shalal, Andrew Galbraith. (2019, 5 August). "U.S. designates China a currency manipulator, escalating trade war." Reuters. Retrieved from: <https://www.reuters.com/article/us-china-markets/u-s-designates-china-a-currency-manipulator-escalating-trade-war-idUSKCN1UV061> (Accessed on: June 22, 2021).

²²⁹ "Trump accuses China of 'manipulating' its currency." (2018, 21 August). Ibid. (Access: July 30, 2021).

²³⁰ Ana Swanson. (2019, 6 August). The U.S. Labeled China a Currency Manipulator. Here's What It Means. The New York Times. <https://www.nytimes.com/2019/08/06/business/economy/china-currency-manipulator.html> (Access: July 30, 2021).

²³¹ Bahri Yılmaz. (2019): "The US-China "trade war": The war nobody can win." Working Paper, No. 1911, Koç University-TÜSIAD Economic Research Forum (ERF), Istanbul pp.3.

surplus,²³² equalling %10 of its GDP, especially during the post-2007-2008 GFC era.²³³ From this standpoint, the most critical point is that the rise of China to the world's largest producer and exporter negatively affects certain sectors in the manufacturing industry of the USA. Such changes have been strategically threatening the USA's current hegemonic position in the face of the rise of China. This case forms the basis of the rivalry between the USA and China.²³⁴ In a report by Goldman Sachs, it is pointed out that China will overtake the USA in 2041 and become the world's largest economy.²³⁵ Besides, according to another study by Lawrence J. Lau (2019), Professor of Economics from the Chinese University of Hong Kong, China will surpass the USA in real GDP from the beginning of the 2030s.²³⁶ This sort of similar short-term projections has been leading to a confrontation with the USA with China because the possibility of China overtaking the USA as a rising power increases with such developments. So, the main reason for revealing the USA-China Trade Wars is the power challenge between the two countries, which can be identified as the "Thucydides Trap," too.²³⁷

Based on the argument that China's rapid economic growth trend negatively affects the USA economy and its international position, the USA administration has blamed China for following a mercantilist policy. In particular, currency manipulation allegations are based on the idea that the USA has been at a disadvantage against China in export. It contributes to China's growth process at the expense of enhancing the USA's current account deficit problem. However, the biggest threat that arises in the context of trade wars in terms

²³² Anwar Shaikh, Isabella Weber. (2020). "The U.S.–China Trade Imbalance and the Theory of Free Trade: Debunking the Currency Manipulation Argument." Political Economy Research Institute. Working Paper Series, No: 505. pp.18.

²³³ David Adler. (2017, 10 August). "Countering Chinese Mercantilism." Retrieved from: https://www.city-journal.org/html/countering-chinese-mercantilism-15391.html?wallit_nosession=1 (Access: July 30, 2021).

²³⁴ Barbara Lippert, Volker Perthes . (2020). "Strategic Rivalry between United States and China Causes, Trajectories, and Implications for Europe." Stiftung Wissenschaft und Politik, Berlin (SWP). SWP Research Paper, No: 4.

²³⁵ Daniel Altman. (2012). "Predicting the Economic Future Through Convergence: The Case of China. In There's a Future: Visions for a Better World." Goldman Sachs, BBVA. pp.319.

²³⁶ Lau (2019b). "The China–US Trade War and Future Economic Relations." China and the World: Ancient and Modern Silk Road, 2(2), 1-30. pp.1.

²³⁷ Ibid, pp. 30.

of exchange rate policy and the hegemonic power of the USA was the claims that China would sell its US-denominated treasury bonds for causing them to be dumped.²³⁸ Since the reserve accumulation policy of the Chinese administrations has meant the buying of the USA's national debts by China at the same time.²³⁹ Such a situation is a possible development that would have led the USD to depreciate, shake international confidence and question its reserve currency position. Many economists have been considering this issue as an essential threat against the USA as this move may undermine the Dollar's hegemonic position. On the other hand, it also should be taken into account that this move would negatively affect China's competitive advantage in exports by gaining the Renminbi's value in the face of the depreciation of the Dollar. In addition, Consequently, the Dollar's value against the Renminbi was a crucial root cause between China and the USA in the trade war due to debates about the USA's hegemonic position and the rising of China by export-led growth model.²⁴⁰

Exchange rates are not the only area where the USA accuses the Chinese governments of pursuing mercantilist policies. The USA also accuses China of penetrating the domestic market difficult for foreign companies with policies such as import obstacles and export subsidies. In addition, the USA accuses its local companies of gaining an advantage over foreign investments owing to the government's providing capital controls and financing facilities. The most striking accusation at this point has been that the Beijing government forces foreign companies to invest in technology transfer to China. This situation forms a basis for the claims that many domestic companies have been committing industrial espionage by violating

²³⁸ Richard Leong. (2019, 28 May). "Explainer: Will China dump U.S. bonds as a trade weapon? Not so fast." Reuters. Retrieved: <https://www.reuters.com/article/us-usa-trade-china-bonds-explainer/explainer-will-china-dump-u-s-bonds-as-a-trade-weapon-not-so-fast-idUSKCN1SY0BS> (Access: July 30, 2021).

²³⁹ "Is it a risk for America that China holds over \$1 trillion in U.S. debt?" (n.d.). Center for Strategic & International Studies. China Power Project. Retrieved from: <https://chinapower.csis.org/us-debt/>

²⁴⁰ Leong (2019). Ibid. (Access: July 30, 2021).

Intellectual Property Rights (IPR).²⁴¹ However, beyond all such frictions that are the subject of the technology side of trade wars, precisely, the Made-in-China 2025 strategy put forward by the Xi Jinping administration, has been perceived as an existential threat by the USA towards its global dominance.²⁴²

3.3.2. TECHNOLOGICAL COMPETITION BETWEEN THE USA AND CHINA: MADE-IN-CHINA 2025 (MIC 2025)

One of the most significant areas for the arising of the USA-China trade wars is controversial topics on technology between both countries. Two issues came to the fore in terms of the objections of the USA against China's challenge during the period of trade wars. The first of these is "mercantilist (protectionist)" practices towards the technology that China has followed, and the second is Made-in-China 2025 (MiC 2025) that is China's Industry transformation program. In particular, MiC 2025 is perceived as a grave threat by the USA administration as it may create a structural transformation.²⁴³

The administration's first step was to introduce an investigation under Section 301 in August 2017 in response to some allegations raised in the context of rising concerns that China is practicing technological protectionism. In the United States, concerns about China centered on its intellectual property (IP), technology and innovation policies. President Trump signed a memorandum on March 22, 2018, at the end of the investigation. From this memorandum, China's approach can be summarized in five points. Accordingly, China governments have been mandating US companies to enter into joint ventures with local companies in order to force these firms for technology transfers. In parallel, this government has been

²⁴¹ Fu-Lai Tony Yu (2017). "Neomercantilist Policy and China's Rise as a Global Power." *Contemporary Chinese Political Economy and Strategic Relations: An International Journal*. 3(3), 1043-1073. pp.1052.

²⁴² Adam Segal. (2018, 6 August). "Made in China 2025: Why Does Everyone Hate It?." *Global Trade Magazine*. Retrieved: <https://www.globaltrademag.com/made-in-china-2025-why-does-everyone-hate-it/> (Access: July 30, 2021).

²⁴³ Gerwin,. (2018). *Ibid*.

hindering companies' market penetration, especially from the USA, via increasing investment restrictions, administrative reviews, complicating licensing processes, or unfair licensing practices. Besides, in particular, about Intellectual Property Rights (IPR) violations objection from the USA against the Chinese administration focuses on forcing foreign companies to make their investment and acquisition policies in compliance with the Chinese state's industrial strategy like MiC 2025. At this point, concerns on entering the computer networks of USA companies without permission by the Chinese state for obtaining valuable information about businesses and affairs carried out by these firms become prominent under the concept of cyberintrusions.²⁴⁴ Lastly, the USA administration has been accusing the Chinese state of providing special benefits for state-owned enterprises (SOEs), manipulating technology standards, and ensuring government support to domestic firms for the acquisition of foreign companies.²⁴⁵

All of the claims and developments fundamentally reflect the Sino-American technological competition. This competition is vital in two respects, which are economical and structural. From the economic point of view, this issue demonstrates the threat posed by China's rapid growth process against the USA. Structurally, this issue has been related to the perception of the USA administration, in which China's technological advancement and rising has been creating a serious threat against the USA's superiority on the global stage. The USA administration's concerns about China have been growing due to its economic escalation.

²⁴⁴ Wayne M. Morrison. (2019). "Enforcing U.S. Trade Laws: Section 301 and China." US Congressional Research Service. (Access: August 1, 2021) Retrieved: <https://crsreports.congress.gov/product/pdf/IF/IF10708>

²⁴⁵ Robert D. Atkinson. (2017, 26 April). "China's Technological Rise: Challenges to U.S. Innovation and Security." Information Technology and Innovation Foundation (ITIF). Before the House Committee on Foreign Affairs Subcommittee on Asia and the Pacific. Retrieved: <https://www2.itif.org/2017-testimony-foreign-affairs-committee-china.pdf> (Access: August 3, 2021).

Despite this rapid growth process, China's economy has gradually begun to evolve towards domestic consumption in recent years, especially after 2015.²⁴⁶ There is a relative slowdown in the rapid growth rates of the Chinese economy. For instance, while China's real annual growth rate was 14.2% in 2007, this figure decreased to 6.6% up to 2018. The Chinese government has called this level of growth rates as "new normal." in which real growth rates are relatively lower than previous annual growth rates, mostly more than 10%. However, this situation pointed to the possibility of falling into the "middle-income trap." It means that the growth rates of the countries start to go down after they reach a certain level of income. In the face of this probability, the Chinese government adopted to switch the economic development policy from a fixed investment and export-oriented growth model to a new growth model focused on private consumption, services, and most importantly, innovative technologies in order to maintain its economic development and make the growth rate sustainable.²⁴⁷ This model change of China signifies the competition with the USA because the Chinese government aims to keep its economic rise against the United States by making the country's economic growth sustainable.

Moreover, China's new economic growth model that is technology-driven and innovation-based has been considered by the USA as a challenge. As mentioned at the beginning of this chapter, MiC 2025 strategy becomes prominent here. "Made in China 2025" (MiC 2025) is the name of the plan announced by the Chinese government in 2015 that it aims to transform the Chinese economy from a global manufacturing base to a leading technological power. In short, by focusing on energy-saving green production, The Chinese

²⁴⁶ Jonathan Woetzel, Jeongmin Seong, Nick Leung, Joe Ngai, James Manyika, Anu Madgavkar, Susan Lund, Andrey Mironenko. (2019). "China and the World: Inside the dynamics of a changing relationship." McKinsey Global Institute (MGI). pp.8. (Access: August 1, 2021). Retrieved from: <https://www.mckinsey.com/~/media/mckinsey/featured%20insights/china/china%20and%20the%20world%20inside%20the%20dynamics%20of%20a%20changing%20relationship/mgi-china-and-the-world-full-report-june-2019-vf.ashx>

²⁴⁷ Wayne M. Morrison. (2019). "China's Economic Rise: History, Trends, Challenges, Implications for the United States." US Congressional Research Service. (Access: August 1, 2021) Retrieved: https://www.everycrsreport.com/files/20190625_RL33534_088c5467dd11365dd4ab5f72133db289fa10030f.pdf

government targets advancing high-tech equipment production, including new information technologies and robotics. According to the plan, the government has set three critical dates in terms of vision. These are the years 2025, 2035, and 2049. Accordingly, by 2025, China will be “a powerful manufacturing country.” After realizing this target, the government wants to make the country a "middle-level world manufacturing power" in 2035. It aims to complete the plan by making China's "top world manufacturing power" in 2049, its 100th foundation year.²⁴⁸ In this context, the priority targets set by the Chinese government regarding the plan intensify on nine points like the development of innovation in manufacturing, integration of technology and industry, and development of green manufacturing.²⁴⁹

Within the framework of these targets, Made-in-China's (2025) strategy has emerged from the goal of demonstrating an economic growth performance in line with the so-called Fourth Industrial Revolution of China. With the new industrial revolution, the concept of smart manufacturing, shaped by high value-added technologies based on automation and digital technologies, has come to the fore. In the scope of the MiC 2025 strategy, which is inspired by Germany's Industry 4.0 strategy, primarily in order to gain self-sufficiency, China has determined ten different sectors²⁵⁰ such as new-generation information technologies, high-end computerized machines, robots, and new energies.²⁵¹

New technologies based on artificial intelligence (AI) are at the center of all these areas, and they shape the rivalry between American and Chinese governments and trade wars. In particular, China's rapid closing of the technological advancement gap with the USA and its transition to implementing high value-added

²⁴⁸ “A Made in China 2025' Strategy: Blueprint designed to boost manufacturing”. (2018, 26 March). CGTN. Retrieved: https://news.cgtn.com/news/3355544e79454464776c6d636a4e6e62684a4856/share_p.html (Access: August 1, 2021).

²⁴⁹ Akkemik., Menteşoğlu-Tuncer. (2019). Ibid. pp.82.

²⁵⁰ Jost Wübbeke, Mirjam Meissner, Max J. Zenglein, Jaqueline Ives & Björn Conrad . (2016). “Made in China 2025: The making of a high-tech superpower and consequences for industrial countries.” Mercator Institute for Chinese Studies (MERICS). No:2, pp.13-17.

²⁵¹ Akkemik, Menteşoğlu-Tuncer (2019). Ibid. pp.82

production policies played a critical role in triggering trade wars. It should be taken into account that China has surpassed the USA the total number of companies operating with artificial intelligence, the total amount of investments made in the field of the information economy, and the number of patents received in the field of artificial intelligence. According to many experts on AI, China has reached the "Sputnik Moment" against the USA. It is China's great challenge to the United States. Its R&D spending has been increasing by 7% annually. Kai-Fu Lee emphasizes that China has quickly caught up with the USA in the field of AI. The US Congress has been considered the fact that China has prepared a 190 Billion USD package on AI as a clear indication of the Chinese government's desire to become a technological hegemon. Additionally, in 2019, on R&D studies, the USA spent 612 Billion USD and China 514 Billion USD. If it is taken into account that in 2000, this figure was only 33 Billion USD for China and was 330 Billion USD for the USA, it will be better understood how much China caught up with the USA in this field.²⁵²

Also, the point China has reached in innovation and R&D activities would give a realistic idea about the seriousness of the threat perception created by the MiC 2025 strategy for the USA.²⁵³ Accordingly, while China had made only 276 patent applications to the World Intellectual Property Office's (WIPO) Patent Cooperation Treaty (PCT) System in 1999, it left the USA behind with 58990 applications in 2019. This figure corresponds to 20% of all worldwide applications and shows that China has increased the annual number of applications 200 times in 20 years.²⁵⁴ According to the Global Innovation Index (GII), which shows the industrial innovation level of countries in the international arena, China was the 29th most innovative economy in the world in 2007. As of 2019, it surpassed Canada, Japan, and France rose to the

²⁵² Tim Bajarin . (2021, 22 January). "The U.S. Wakes Up To China's AI Threat." Forbes. (Access: August 3, 2021). Retrieved: <https://www.forbes.com/sites/timbajarin/2021/06/22/the-us-wakes-up-to-chinas-ai-threat/?sh=71c2f5d8381b>

²⁵³ Filiz Erataş Sönmez, Yağmur Sağlam Liman. (2020) "Yeni Korumacılık: Tarife Dışı Engeller, Ticaret Savaşları ve Yapay Zeka Kavramının Ticaret Savaşlarındaki Rolü." İstanbul: Ekin Publishing. pp.63-64.

²⁵⁴ Alexander B. Hammer, Shahid Yusuf. (2020). "U.S. International Trade Commission. Is China in a High-tech, Low-productivity Trap?" Economic Working Paper Series: Working paper 2020-07-B. pp.19-20.

14th rank.²⁵⁵ The reflections of these developments in the Sino-American competition can be seen from the banning applications of the USA administration towards some Chinese technology firms and the rivalry between both powers on mineral resources and energy sources as raw materials and basic inputs for upgrading and advancing new technologies.

The ban on the use of microprocessors by Huawei, one of the Chinese leading technology companies, in the USA on the ground that there is spyware in its microprocessors is a very presentative example in terms of threat perception in the USA. In addition, the research and development (R&D) efforts initiated by China in this area are followed with concern by the USA, especially as these technologies are playing an increasingly critical role in defusing large and expensive military investments such as guided missile systems and aircraft carriers.²⁵⁶ Similarly, the sanctions imposed by the Trump administration against ZTE reveal that the ZTE case has been perceived as an issue of national threat for the USA because it has been a part of the technological competition rather than the tariff war. To concretize, this company bought most of its basic input components, especially smartphone chips, from American companies such as Qualcomm and Intel.²⁵⁷ As a reaction, the Chinese government's decision to stop purchases from Qualcomm -a US-origin company- should be underlined too. This decision may be interpreted as a strategic retaliation against the USA in the semiconductors sector.²⁵⁸ As a crucial input semiconductor and as a new generation basic technology, new generation wireless internet network systems (5G) can affect the global dominance of great powers via changing their technological advancement level differences and global supply chains.²⁵⁹

²⁵⁵ Peter Grinstead, Ovigwe Eguegu (2021). "China's Model of Innovation: Are there Lessons for African Countries?" Center for Global Development (CGD). CGD Note – May 2021, 1-35. pp.3.

²⁵⁶ Erataş Sönmez, Sağlam. Liman, Y. (2020) Ibid. pp.64.

²⁵⁷ Sissi Cao. (2018, 7 May). "How Trump Dragged ZTE into the US-China Trade War—And Why It Didn't Work." Observer. Retrieved: <https://observer.com/2018/07/trump-zte-us-china-trade-war-explained/> (Access: August 3, 2021).

²⁵⁸ Mercy A. Kuo (2018, 15 May). "Impact of Qualcomm and ZTE Cases on US-China Trade War." The Diplomat. Retrieved: <https://thediplomat.com/2018/05/impact-of-qualcomm-and-zte-cases-on-us-china-trade-war/> (Access: August 3, 2021).

²⁵⁹ David J. Lynch. (2018, 19 April). "What's inside made-in-China electronics should worry federal customers, study says." The Washington Post. Retrieved: https://www.washingtonpost.com/business/economy/whats-inside-made-in-china-electronics-should-worry-federal-customers-study-says/2018/04/18/d06c5252-433c-11e8-ad8f-27a8c409298b_story.html (Access: August 3, 2021).

Furthermore, in recent years, as fossil fuel resources in the world have decreased and energy demand has increased, energy competition between the great powers, especially China and the USA, has enhanced. Preserving energy resources and worldwide supply, including renewable energy sources, is the most important part of the competition on energy security.²⁶⁰ Naturally, economic gains from technological advances in energy resources have gained importance as well.²⁶¹ In this sense, parallel to its efforts to dominate renewable energy technologies, China has become the largest country in the production of wind turbines and solar panels by becoming the largest manufacturer in just a few years. However, the USA administration has perceived this case as an economic and environmental threat to its domestic energy sector.²⁶² For this reason, in January 2018, Trump imposed a 30% tariff on imported solar panels to alleviate American manufacturers' concerns and tackle China's escalation in the solar industry.²⁶³

Lastly, another critical area for these technologies is the issue of rare metals. China owns 37% of the world's rare earth and is the USA's largest importer (59%). These metals occupy a crucial position in the emerging smart technologies and equipment like helicopters, mobile phones, medical devices, and defense industry vehicles. In this respect, China's strategic superiority in this sector poses another severe menace for the USA. These technologies may have on determinant impact on the balance of power between the USA and

²⁶⁰ Bryce Butler Steeves, Helton Ricardo Ouriques. (2016). "Energy Security: China and the United States and the Divergence in Renewable Energy." *Contexto Internacional*. 38(2), 643-662. pp.643.

²⁶¹ David Yellen. (2020, 3 November). "How China Came to Dominate Clean Energy Technologies, and How the US Can Catch Up." *Green Tech Media*. Retrieved: <https://www.greentechmedia.com/articles/read/how-the-us-can-better-compete-with-china-in-the-clean-energy-technology-cold-war> (Access: August 3, 2021).

²⁶² Stevens, Ouriques (2016). *Ibid*, pp. 651.

²⁶³ Bryanna Crisswell. (2019, 5 July). "U.S. Solar Industry Shaken by Trump's Trade War." *China US Focus*. Retrieved from: <https://www.chinausfocus.com/finance-economy/us-solar-industry-shaken-by-trumps-trade-war> (Access: August 3, 2021).

China.²⁶⁴ Hence, this matter is a possible source of a new cold war and national security threat for the USA.²⁶⁵

In summary, technological competition, a vital issue trade wars between the USA and China, for the protection or re-establishment of the military, economic and political power balances. It is determined by the future of the economic structure of the great powers like the USA and China via new technologies emerging around the concept of Industry 4.0. The MiC 2025 followed by the Xi administration has particular strategic importance to arise the USA-China rivalry. The USA has seen it as the strategic challenge of China to its technological leadership.²⁶⁶ So, the USA-China trade wars are basically a struggle of hegemony and to maintain technological superiority is a notable pillar.²⁶⁷ As a continuation of its economic and technological escalation, China forms some menace to the USA in the International Monetary System (IMS) via the Internationalization of Renminbi (RMB) and some newly founded international institutions.

3.3.3. INTERNATIONALIZATION OF RENMINBI (RMB): CHINA'S ALTERNATIVE TO THE GLOBAL POSITION OF US DOLLAR (USD)

In the last 30 years, the rapid growth process in China has led to the discussion of the internationalization process of the Chinese domestic currency Renminbi (RMB).²⁶⁸ It is the key point about this subject as

²⁶⁴ Zhenhua Lu, Sarah Zheng. (2019, 5 Jun). "US moves to reduce reliance on Chinese rare earths exports after Beijing threatens to cut supplies." South Morning China Post. Retrieved from: <https://www.scmp.com/news/china/diplomacy/article/3013227/us-moves-reduce-reliance-chinese-rare-earth-exports-after> (Access: August 1, 2021).

²⁶⁵ Raymond Zhong. (2018, 9 May). "Chinese Tech Giant on Brink of Collapse in New U.S. Cold War." The New York Times. Retrieved: <https://www.nytimes.com/2018/05/09/technology/zte-china-us-trade-war.html> (Access: August 3, 2021).

²⁶⁶ David J. Lynch, Danielle Paquette. (2018, 12 December). "China to revise plan for global technology dominance." The Washington Post. Retrieved: https://www.washingtonpost.com/business/economy/china-to-revise-global-technology-dominance-plan/2018/12/12/6942cb78-fe22-11e8-83c0-b06139e540e5_story.html (Access: August 3, 2021).

²⁶⁷ Elsa B. Kania. (2019, 1 February). "Made in China 2025, Explained." The Diplomat. Retrieved: <https://thediplomat.com/2019/02/made-in-china-2025-explained/> (Access: August 3, 2021).

²⁶⁸ Mohammad Shahidul, Omar Khaled. (2012). "Internationalization of the Renminbi: Theory and Evidence." Institute of Governance Studies, BRAC University. IGS Working Paper Series No. 04/2012. pp.2.

Kindleberger states that "the value of a country's currency has a more specific meaning than a number." Also, Robert Mundell pointed out that "great powers have a great currency." For this reason, the currency shows the position and strength of that country in the international arena.²⁶⁹ This sort of a realist approach in monetary diplomacy stems from the ongoing struggle between the rising power of China and the current hegemonic state, the USA, to gain more power in the international arena, especially over East Asia.²⁷⁰ It is why the issues on monetary struggle, which is a basic cause of trade wars, should be tackled between two countries.

In the last decade, China has taken some official steps towards achieving the Renminbi (RMB) internationalization by implementing some policies within the framework of its goals for this process. These steps can be listed as follows: (i) the founding of Cross-Border Interbank Payment System (CIPS) and CEINEX (China Europe International Exchange), (ii) the joining of RMB in the IMF's SDR basket, (iii) the signing of bilateral currency swap agreement (CSA) between forty-one²⁷¹ different countries and China to be executed through central banks, (iv) to promote the global use of RMB by increasing bilateral infrastructural investments and trade missions through institutions and projects like Belt and Road Initiative (BRI) and Asia Infrastructure Investment Bank (AIIB), (v) the launching of initiatives to restructure the IMS and International Financial System (IFS) via issuing a national digital currency (e-RMB), (vi) to target the increase in usage of RMB in foreign economic transactions through regional agreements such as the Regional Comprehensive Economic Partnership (RCEP),²⁷² (vii) the introduction a new type of crude oil

²⁶⁹ Otero-Iglesias, M. (2011). "The Internationalisation of the Renminbi (RMB): A Strategy of Crossing the River by Feeling the Stones." IGADI (Instituto Galego de Análise e Documentación Internacional), 1-19. pp.2-3.

²⁷⁰ Injoo Sohn. (2015). "China's Monetary Ambitions: RMB Internationalization in Comparative Perspective." The Korean Journal of International Studies 13-1 (April 2015), 181-206. pp.183

²⁷¹ C. P. Chandrasekhar, Jayati Ghosh. (2020, 14 December). "Bilateral swaps' role in China's rising global footprint." The Hindu Business Line. Retrieved from: <https://www.thehindubusinessline.com/opinion/bilateral-swaps-role-in-chinas-rising-global-footprint/article33330279.ece> (Accessed on: August 1, 2021).

²⁷² Jacob Kurien, Bernard Yudkin Geoxavier. (2020, 8 December). "The Political Economy of International Finance: A Revised Roadmap for Renminbi Internationalization." Retrieved from: <https://www.yalejournal.org/publications/the-political-economy-of-international-finance-a-revised-roadmap-for-renminbi-internationalization> (Accessed on: July 3, 2021).

futures contract into Shanghai International Energy Exchange in March 2018 with the purpose of going up of the share of RMB in world oil trading,²⁷³ (viii) the improving of offshore RMB deposit markets in primarily Hong Kong via issuing of RMB-denominated bonds, which of them is called as “*Dim Sum Bonds*” in Hong Kong and “*Panda Bonds*” in Chinese Mainland.²⁷⁴

At this point, the most critical concrete step regarding the internationalization process of Renminbi was the inclusion of the Renminbi as the 5th currency in the SDR basket on 30 November 2015. Previously, US Dollar (USD), Euro (EUR), Japanese Yen (JPY), and British Pound (GBP) had been included in this basket. Currencies in the SDR basket constitute the official forex reserves of the countries. In this sense, the most remarkable development is that the weight of the other four currencies in the SDR basket has gone down with the participation of the Chinese Renminbi. Accordingly, in the face of the RMB's weight of 10.92% in the basket, the weights of other currencies in the basket relatively went down. (i) USD: from 41.90% to 41.73%; (ii) EUR: from 37.40% to 30.93%; (iii) JPY: from 9.40% to 8.33%; (iv) GBP: from 11.3 to 8.09%. Even though this rate is below the expected weight in the 14-16% range for the RMB, it shows the rising importance of China and the Chinese RMB as reserve currencies.²⁷⁵ Parallel to these developments, while the usage rate of the Renminbi is increasing, especially in emerging markets, at the beginning of 2018, it was still the 8th most traded currency in the world in cross-border transactions.²⁷⁶

²⁷³ Maha Kamel, Hongying Wang (2019). “Petro-RMB? The oil trade and the internationalization of the renminbi.” *International Affairs*, 95(5), 1131–1148. pp.1131.

²⁷⁴ Apart from this, in 2005, some international organizations in China, such as International Finance Corporation and Asian Development Bank, started to issue RMB-denominated bond, which is called as “Panda Bonds”. Then, in 2010, the Bank of Tokyo Mitsubishi UFJ (China) Ltd., as a commercial bank, for the first time, sold these bonds. For further info, Yin-Wong Cheung. (2011). “Renminbi Going Global. UC Santa Cruz: Department of Economics, UCSC.” Retrieved from <https://escholarship.org/uc/item/2qn810hg> (Accessed on: August 1, 2021).

²⁷⁵ Yuanzheng Cao. (2018). “Strategies for Internationalizing the Renminbi.” Singapore: Springer Nature Singapore. pp.185.

²⁷⁶ “RMB Tracker – January 2018 (2018). RMB internationalisation: Where we are and what we can expect in 2018.” SWIFT. Retrieved from: <https://www.swift.com/resource/rmb-tracker-january-2018-special-report> (Accessed on: August 1, 2021).

On the other hand, some institutional steps taken by China may create essential opportunities for China to accelerate the process in the medium term. These are Belt and Road Initiative (BRI),²⁷⁷ the Asian Infrastructure Investment bank (AIIB), and the Cross-Border Interbank Payments System (CIPS). The first is a physical infrastructure project, the second is a new financial institution, and the last is a new financial infrastructure system. China aims to accelerate and increase its overseas investments within this institutional framework through the state, banks, and companies.²⁷⁸

In this direction, in the face of the current global usage level of Renminbi (RMB), China has been trying to make it a solid alternative to the USD by establishing a number of new institutions (like AIIB and CIPS) and via largely digitalizing RMB at least compared to the USD.²⁷⁹ In addition to these institutions, New Development Bank (NDB or BRICS Bank) is another crucial initiative of China, a multilateral development bank like AIIB. NDB, one of these two banks, was founded by Brazil, Russia, India, China, and South Africa, while 57 countries launched AIIB under the leadership of China.²⁸⁰ It is expected that these banks will trigger the increase in RMB-denominated bonds in the offshore market. It is anticipated that these banks will contribute to the internationalization process of the RMB by providing direct loans to member countries or funding their infrastructure projects with financial products such as RMB-denominated long-term construction bonds.²⁸¹ In that case, by reason of that the enhancement of credit capacity in RMB, the number of RMB offshore centers would go up too. In these offshore centers, member countries would be able to meet their loan demands -mostly in RMB- by exchanging their domestic currencies with RMB.

²⁷⁷ In the next sub-section, it is tackled relatively more detailed.

²⁷⁸ Liu Dongmin, Gao Haihong, Xu Qiyuan, Li Yuanfang and Song Shuang. (2017). The 'Belt and Road' Initiative and the London Market – the Next Steps in Renminbi Internationalization Part 1: The View from Beijing. Chatham House. pp.4.

²⁷⁹ Joel Slawotsky. (2020). "US Financial Hegemony: The Digital Yuan and Risks of Dollar De-weaponization." *Fordham International Law Journal*, 44 (1), 39-100. pp.39.

²⁸⁰ Brenda Goh. (2015, 21 July). "BRICS bank launches in Shanghai, to work with AIIB". Reuters. Retrieved from: <https://www.reuters.com/article/emerging-brics-bank-idINKCN0PV08720150721> (Accessed on: August 1, 2021).

²⁸¹ Enea Gjoza. (2018). "RMB Internationalization: Implications for U.S. Economic Hegemony." *Belfer Center for Science and International Affairs*, pp. 10-11.

Most importantly, these banks would contribute significantly to the deepening of RMB bond markets as a result of the fundraising process.²⁸² Besides, in the opinion of many experts, CIPS, which was established as a new option against SWIFT, has shown a rapid development process. The size of transactions made with CIPS, by increasing 80%, reached RMB 26 trillion from 2017 to 2018. According to figures of 2019, CIPS was preferred for using cross-border payments by many banks from Japan, Russia, Taiwan, Singapore, and the UK. This figure was 103 in total.²⁸³

Some experts consider these institutional steps taken by China as a reactionary move against Bretton Woods international financial institutions (IFI) such as the US-centric IMF and WB and Japan-centric ADB. In other words, the emergence of these institutions is aimed at creating an alternative to the superior position of the Global North in the financial system. Accordingly, the fact that the decision-making processes and voting shares in these institutions are not proportional to the size of the countries in the world economy causes an objectionable situation, in particular for China. Since, even though China is the second-largest economy in the world, its voting share in the IMF is more petite than Japan. A similar situation is valid for the BRICS group, which includes China, so that while the economic size of these countries is close to 25% of the global GDP, their voting share in IMF is below 15% in total.²⁸⁴ On this subject, the most outstanding attempt of China, which may create a revolutionary effect in IMS, is the subject of petro-yuan. As the current world's biggest oil importer, China introduced the futures transactions for crude oil trading using RMB at the Shanghai Futures Exchange on 26th March 2018. It is considered a crucial step of China against the US

²⁸² Rafael Ramos Codeço. (2018). "The Asian Infrastructure Investment Bank, the New Development Bank and the Internationalisation of the Renminbi (RMB) – The New International Financial Institutions as Part of the Chinese Strategy to Build Up an International Reserve Currency." *Contemporary Chinese Political Economy and Strategic Relations*. 4 (3). 821-868. pp.832.

²⁸³ "Will China's push to internationalize the renminbi succeed?". (n.d.). Center for Strategic & International Studies. China Power Project. Retrieved from: <https://chinapower.csis.org/china-renminbi-rmb-internationalization/> (Accessed on: July 4, 2021).

²⁸⁴ "Asian Infrastructure Investment Bank and the New Development Bank: Paradigm Shift or Rehashing Corporate-Led Development?". (2020). *The Reality of Aid – Asia Pacific (RoA-AP) and CSO Partnership for Development Effectiveness*. pp.6.

and the current petrodollar system.²⁸⁵ This system designed by Chinese policymakers is oil trade with yuan, which is gold-backed. In other words, in the petro-yuan system, oil futures are used that can be fully converted to gold by relying on China's huge amount of gold reserves. It may also be evaluated as backing the BRI and AIIB projects. Accordingly, the Chinese government seems to target to increase the usage of RMB through countries that are a part of these projects.²⁸⁶ It can be deducted from all of mentioned above that China aims to complete at first regionalization through all of these policies and institutions. Especially in Asia, as an interpretation, it is possible that these attempts are part of the RMB's internationalization process²⁸⁷ because a domestic currency can reach the reserve currency position in time by internationalizing after peripheralization and regionalization processes. From this point, it can be said that RMB's potential to challenge USD should not be underestimated.²⁸⁸ Within this framework, even if RMB cannot take away the USD's global reserve currency position, China may establish a multiple reserve currency system in the current IMS, specifically in the case that instability arises due to rivalry in the system.²⁸⁹

From this perspective, even though the current situation of the RMB signs that China is currently far from having the issuer of reserve currency country. It has been competing with Western-centric IMS led by the USA via its domestic currency's (RMB) internationalization and prospective institutions like NDB and AIIB. One of the most critical factors pushes the USA to follow more protectionist policies to preserve its

²⁸⁵ Mamdouh G. Salameh. (2018) "Will the Petro-Yuan Be the Death Knell for the Petrodollar?". USAEE Working Paper No: 18-338. pp.7-8. Retrieved from: <https://ssrn.com/abstract=3157740> (Accessed on: July 6, 2021).

²⁸⁶ John A. Mathews, Mark Selden. (2018). China: The Emergence of the Petroyuan and the Challenge to US Dollar Hegemony. *The Asia-Pacific Journal*. Vol: 16, No: 3, Issue:22. 1-11. pp.2.

²⁸⁷ Zhengyi Song, Haixiao Song. (2012). "Opportunities and Challenges of Renminbi Internationalization." 2012 2nd International Conference on Social Science and Humanity IPEDR vol.31, IACSIT Press, Singapore. 139-144, pp.143.

²⁸⁸ Bora Ly. (2020) "The nexus of BRI and internationalization of renminbi (RMB)." *Cogent Business & Management*, 7(1). pp.6-7.

²⁸⁹ Barry Eichengreen, Masahiro Kawai. (2014). "Issues for Renminbi Internationalization: An Overview." ADBI Working Paper 454. Tokyo: Asian Development Bank Institute. pp.17.

worldwide hegemonic status.²⁹⁰ Mehmed (2020) evaluated these institutions as an innate reflection of the Sino-American competition. According to him, the basis of the global superiority of the USA in the post-war global financial institutions. Even though the Bretton Woods System has fallen, the USA has been able to continue its global superiority worldwide with the influence of these institutions. Thus, the policies implemented by the Chinese authorities can be evaluated as pragmatically aiming to establish the Chinese Bretton-Woods System via the following strategy adopted by the USA in the post-war era.²⁹¹

Consequently, China's initiatives to found AIIB, CIPS, and NDB are a part of the Internationalization of Renminbi, which is the counter-hegemonic steps of China against the USA's dominance on the globe.²⁹² It also depicts its struggle for hegemony with the USA fundamentally, and the trade war is a confrontation of this conflict. However, China's economic escalation via the global monetary system, technological advancement, and economic growth sustainability shows that trade war is substantially not only an economic war but also a geopolitical war. Since, as a result of its economic rise, China's military strength and regional and global influence have been increasing. Notably, in the Asia and Pacific region, China has been becoming a more determinant actor day by day, parallel to its economic escalation. As a continuation of its political strengthening and new institutions founded by itself, China proposes a new globalization and development model against the US-centric model. While the US-centric model is called the Washington Consensus, the China-centric one is called the "Beijing Consensus."²⁹³

²⁹⁰ This issue will be tackled next chapter. For further info, please see: Erik Hakans, Phil Hynes. (2017, 17 January). "China's Challenge to the World Economic Order." Asia-Pacific Research. Retrieved from: <https://www.asia-pacificresearch.com/chinas-challenge-to-the-world-economic-order/5569175?pdf=5569175> (Accessed on: July 7, 2021).

²⁹¹ Bahtiyar Mehmed. (2020, 11 June). "Chinese Economic Policy Strategy after the Global Financial Crisis: A pseudo Bretton Woods in the Making?" Modern Diplomacy. Retrieved from: <https://moderndiplomacy.eu/2020/06/11/chinese-economic-policy-strategy-after-the-global-financial-crisis-a-pseudo-bretton-woods-in-the-making/> (Accessed on: July 7, 2021).

²⁹² G. John Ikenberry, Darren J. Lim. (2017). "China's emerging institutional statecraft The Asian Infrastructure Investment Bank and the prospects for counter-hegemony." Brookings Institute. Retrieved: <https://www.brookings.edu/wp-content/uploads/2017/04/chinas-emerging-institutional-statecraft.pdf> (August 3, 2021).

²⁹³ "A Beijing Consensus challenging Washington Consensus: US economist." (2017, 9 November). Business Standard. Retrieved: https://www.business-standard.com/article/international/beijing-consensus-challenging-washington-consensus-us-economist-117110900582_1.html (Access: August 3, 2021).

3.3.4. THE BASIC RATIONALE OF TRADE WARS: CHINA'S GEOPOLITICAL AND HEGEMONIC CHALLENGE WITH THE USA

The trade wars between the USA and China have created a new geopolitical environment. In particular, the unprecedented escalation of China as a geopolitical power center in the face of the problems discussed related to globalization, and the gradual decline of the post-war USA hegemony triggers the emergence of multipolar globalization experiences²⁹⁴ and different socioeconomic developmental models around the world.²⁹⁵ This geopolitical differentiation and polarization refer to the USA's concerns regarding China's rise in the face of the decline of the USA. The critical point here is these worries have not arisen with the trade war. According to a report prepared for Congress in 2007, the rise of China, mainly economic ascending, was expressed as a threatening situation as a major power on the globe. The report stated that China's economy, which is growing via trade, may surpass the USA in twenty years. This situation reflects the relative decline of the USA in the international arena.²⁹⁶ The worrying thing for the USA is the probability of the conversion of China's economic rise into military power. The emergence of China as a remarkable naval/air power, especially in East Asia, may reveal a military rivalry between the USA and China similar to the "navy race" between Britain and Germany before the First World War. In such a case, the eventuality of this competition turning into a hot conflict should not be ignored.²⁹⁷

²⁹⁴ For more info, Pieterse, J. N. (2018). "Multipolar globalization: Emerging economies and development." London: Routledge.

²⁹⁵ Charis Vlahos, (2020). "The Dynamics of the Current Global Restructuring and Contemporary Framework of the US-China Trade War." *Global Journal of Emerging Market Economies*, 12. 4-23. pp.5.

²⁹⁶ Craig K. Elwell & Marc Labonte. (2007). "Is China a Threat to the U.S. Economy?." US Congressional Research Service. Retrieved from: <https://fas.org/sgp/crs/row/RL33604.pdf> (Accessed on: August 6, 2021)

²⁹⁷ Robert J. Art. (2010). "The United States and the Rise of China: Implications for the Long Haul." *Political Science Quarterly*. 125. 359-391. DOI: 10.1002/j.1538-165X.2010.tb00678.x. pp.359-360.

In parallel to the rise in its foreign trade volume with Asia-Pacific countries, China was following a "soft power" policy in the region for a long time. This policy has been turning into protecting its interests more intensely in the nearby regions in the recent period. In this sense, discussions on the system of inter-country affairs called the "Beijing Consensus," which is related to increase cooperation, with Central Asian and European countries especially, gained a different dimension after the introduction of the "Belt and Road Initiative" (BRI) or "New Silk Road project." All these developments may shape the USA-based alliance system's future by affecting the USA's military superiority, specifically in the Asia-Pacific.²⁹⁸ The trade war launched by the USA against China is a result of the arising hegemonic rivalry between these two powers on the axis of these developments.²⁹⁹

China's geopolitical claim is based on its economic power. From 1978 to 2014, China succeeded in getting out of poverty by more than 850 million Chinese people.³⁰⁰ In fact, in terms of purchasing power parity, China has become the world's largest economy as of 2014. China is the largest exporter and importer in goods trade and the country by becoming the world's low-cost manufacturing center and an export-oriented international technology hub.³⁰¹ As a continuation of these facts, expressly, the USA's preventive steps for the use of the USA-originated technologies in national defense by China confirm the connection of the USA-China trade war with geopolitical frictions between both powers.³⁰² Since, it should be taken into account that China's naval and air forces are Asia's most enormous military power, and its national defense

²⁹⁸ Dusan Praj, Juan Carlos Restrepo. (2016). "The Geopolitics of the Chinese Reform." *Revista de Relaciones Internacionales, Estrategia y Seguridad*. 12(1). 51-72. pp.54.

²⁹⁹ Kammogne Josiane Sider. (2020). "Sino-American Clash of Hegemony: An Analysis of US-China Trade War." *Open Journal of Political Science*, 10, 15-26. pp.15.

³⁰⁰ "World Bank Group. 2018. China Systematic Country Diagnostic : Towards a More Inclusive and Sustainable Development." (2018). World Bank, Washington, DC. pp.1.

³⁰¹ Larisa Kapustina, Ludmila Lipková, Yakov Silin, Andrei Drevaev. (2020). "US-China Trade War: Causes and Outcomes." *SHS Web of Conferences*. 1-13. pp.1-2.

³⁰² Kapustina et al. (2020). *Ibid*. pp.6.

expenditure has enhanced remarkably in recent years.³⁰³ For instance, between 1991 –the ending year of the cold war between the USSR and the USA- and 2016, China’s military expenditure went up from 9,802 Billion USD to 198,538 Billion USD in 2016. As another comparison, While China's military expenditure was equivalent to 3.27% of the USA in 1991, this rate increased to 31.02% in 2016.³⁰⁴ It means that the proportion between the two countries regarding military expenditures has decreased by ten times, which reveals the rationale for the USA's concerns about China's military power and defense technologies and the prevention of China's technology transfer from the USA through protectionist practices during the trade war.

The geopolitical concerns created by these developments in the USA have stemmed from a process. According to a report published by the CIA in 1997, it was stated that China should be seen as a regional power with its existing strength and current importance. Also, it was noted that China would become an equal global power by catching up with the USA in the 21st century. Many steps taken by the Chinese government, especially in the recent period, confirm this concern. These can be listed as (i) the illegal island-building in the South China Sea (SCS) as a reflection of its maritime expansion, (ii) developing ambitious geoeconomic projects in order to make closer nearby countries to itself by pursuing policies against particularly its prominent neighbors such as India and Japan, (iii) the enhancement of its military build-up for decades, in which without transparency.³⁰⁵ For example, China frequently sends maritime patrol vessels to the territorial waters of the disputed Senkaku or Diaoyu Islands in the East China Sea as an objection

³⁰³ Laura Silver, Kat Devlin, Christine Huang. (2019, 13 August). “U.S. Views of China Turn Sharply Negative Amid Trade Tensions.” Pew Research Center. Retrieved: <https://www.pewresearch.org/global/2019/08/13/u-s-views-of-china-turn-sharply-negative-amid-trade-tensions/> (Access: August 6, 2021).

³⁰⁴ “SIPRI Military Expenditure Database: Military expenditure by country, in millions of US\$ at current prices and exchange rates, 1949-2020.” (2021). Stockholm International Peace Research Institute (SIPRI). Retrieved: <https://www.sipri.org/databases/milex> (Access: August 6, 2021).

³⁰⁵ Hal Brands. (2018, 19 February). “The Chinese Century.” National Interest. Retrieved: <https://nationalinterest.org/feature/the-chinese-century-24557> (Access: August 7, 2021).

against Japan's rights over these islands.³⁰⁶ The USA administration has shifted the center of its foreign policy to the Asia-Pacific region since the Obama era. This trend seems to continue by strengthening, as they are expected that half of the world's population will live in this region and half of the global economic output will be produced in this region in 2050.³⁰⁷ In keeping with this approach, President Obama had signed the TPP (Trans-Pacific Partnership) with the regional countries as a step against the escalation of China in the region. On the contrary, Trump withdrew from this agreement as a part of his protectionist notion, defined as "America First."³⁰⁸ However, the President later implied his regret about this decision because this development has made the region more open towards the rising influence of China.³⁰⁹

In line with this, especially, the SCS has become a strategic rivalry region between the USA and China through naval forces; the Trump administration considered this area as a part of the policy of consolidating the USA dominance in the Asia-Pacific region and the world.³¹⁰ In addition to the building islands on coral reefs in disputed waters in the South China Sea, by militarizing various reefs such as Fiery Cross, Mischief, and Subi, China has acquired a severe geopolitical advantage on the strategic waterways of Southeast Asia. The Chinese government has been targeting to make each of them a full military base in the SCS since 70 percent of global trade takes place via this region. For this cause, President Trump wanted to keep its regional hegemony in this region by enhancing the USA military deployment. It shows that for the USA, this matter is a security menace.³¹¹ Within this framework, trade wars should be tackled as a part of this

³⁰⁶ Michael Auslin. (2018, 27 September). "The New China Rules." National Review: Retrieved from: <https://www.nationalreview.com/magazine/2018/10/15/chinas-geopolitical-power-play/> (Access: August 7, 2021).

³⁰⁷ Tim Marshall. (2015). "Prisoners of Geography: Then Maps that Tell You Everything You Need to Know About Global Politics." London: Elliott & Thompson.

³⁰⁸ Simon Lester, Huan Zhu. (2020). "The U.S.-China Trade War: Is There an End in Sight?." The Cato Journal, 40 (1), 15-25. pp.18.

³⁰⁹ Shihoko Goto. (2018, 30 January). "Trump hints at TPP regret, but that train is leaving the station." The Hill. (Access: August 8, 2021). Retrieved from: <https://thehill.com/opinion/finance/371411-trump-hints-at-tpp-regret-but-that-train-is-leaving-the-station>

³¹⁰ Cai Penghong. (2017a). "The South China Sea: Troubled Waters in China-U.S. Relations." China Quarterly of International Strategic Studies, 3(2), 283–298. pp.295.

³¹¹ Ibid, pp.283.

regional and global rivalry between the USA and China in order to obstacle China's escalation. Currently, on the globe, seven of the ten most leading container ports are in China. Also, more than half of the trade fleets in the world pass through the Malacca, Sunda Lombok, and Makassar straits annually; when these are paid into regard, the importance of this region and its linkage with trade wars and the rise of China will become more evident.³¹²

Another cornerstone of the geopolitical rivalry between China and the USA is the "Belt and Road Initiative." It was announced by the Chinese leader Xi Jinping in 2013. BRI is an assertive long-run project to enhance integration among Asia, Europe, and Africa by connecting these regions, primarily through infrastructure investments. The initiative has two main pillars. One of them is the "Silk Road Economic Belt," aiming to increase China's connection with Central Asia and Europe. This belt contains different corridors that will connect Mainland China to the countries of the Mediterranean and the Persian Gulf region, South and Southeast Asia, Central Asia, and Russia. The second pillar of the initiative is the 21st Century Maritime Silk Road, which is to connect China's coasts with many ports of various countries such as European coasts, the Indian Ocean, and the east of Africa.³¹³ While this initiative reflects the Chinese administration's desire to gain worldwide geopolitical superiority by becoming a more dominant power, especially in the Asian region, it was also put forward as a result of the current state of the Chinese economy.³¹⁴ Thanks to the BRI, China would easily acquire energy sources and mineral resources from Russia, Central Asia³¹⁵, and the

³¹² Praj, Restepo (2017). Ibid. pp.54.

³¹³ "The Belt and Road Initiative: A new means to transformative global governance towards sustainable development." (2017). United Nations Development Programme (UNDP) & China Center for International Economic Exchanges (CCIEE). Beijing: United Nations, China. 1-124, pp.48-49.

³¹⁴ Cai. (2017b). "Understanding China's Belt and Road Initiative." Lowy Institute for International Policy. 1-22. pp.1. Retrieved: https://think-asia.org/bitstream/handle/11540/6810/Understanding_Chinas_Belt_and_Road_Initiative_WEB_1.pdf?sequence=1 (Access: August 7, 2021).

³¹⁵ Hong Yu. (2016). "Motivation behind China's 'One Belt, One Road' Initiatives and Establishment of the Asian Infrastructure Investment Bank." Journal of Contemporary China, 1-16. pp.3.

Middle East as the largest oil importer.³¹⁶ The Chinese government is trying to go up the rate of increase in investments and make the economy's growth rate sustainable by eliminating the excess capacity in its economy. It is anticipated that the initiative would encourage Chinese companies to expand their international investments because of creating new opportunities, specifically in infrastructure projects. Thus, the Chinese administration aims to offset the slowdown in the Chinese domestic market through new ventures abroad.³¹⁷ All these targets signify China's determination to continue its economic escalation against the USA.

The Belt and Road Initiative (BRI) has been considered a threat by the USA. Accordingly, it demonstrates China's aim to dominate global industrial production by taking control of the global supply chain.³¹⁸ At this point, China-Pakistan Economic Corridor forms a remarkable example. By following the route from Kashgar in Mainland China to Pakistan's Gwadar Port, which is covered by the CPEC, China targets to overcome the supply problem that may be encountered in case of any embargo by bypassing the Strait of Malacca.³¹⁹ The USA has perceived all these intentions as a big step for founding the global hegemony of China through the materializing of infrastructural investments and projects.³²⁰ It has been planning that the projects of the BRI would be financed mainly by loans from China via China Development Bank.³²¹ It causes the Belt and Road Initiative to be compared to the Marshall Plan, a post-war American aid and

³¹⁶ Camille Lons, Jonathan Fulton, Degang Sun, Naser Al-Tamimi. (2019, 21 October). "China's great game in the Middle East." European Council on Foreign Relations. Retrieved: https://ecfr.eu/publication/china_great_game_middle_east/ (Access: August 7, 2021).

³¹⁷ Celio Hiratuka. (2018). "Changes in the Chinese Development Strategy After the Global Crisis and its Impacts in Latin America." *Revista de Economia Contemporânea* (Journal of Contemporary Economics). 22 (1), 1-25. pp.8

³¹⁸ Eberhard Sandschneider. (2020). "US-China Tensions Will Be the 'Defining Relationship' of Our Time." *Global Asia*, 15 (2), 64-71. pp.68.

³¹⁹ Marshall. (2015). Ibid.

³²⁰ Walden Bello. (2018, 16 July). "China's Bigger Economic Threat." *The Nation*. Retrieved: <https://www.thenation.com/article/archive/chinas-bigger-economic-threat/> (Access: August 7, 2021).

³²¹ Robert Looney. (2019, 3 January). "China's Belt and Road." *Milken Institute Review*. Retrieved: <https://www.milkenreview.org/articles/chinas-belt-and-road> (Access: August 7, 2021).

development program where funding is mostly through grants contrary to the BRI.³²² Both of the developmental projects have striking similarities in terms of targets. The main one is reinforcing these countries' global leadership position, which carries out these plans or initiatives. The second one is to increase in export of the implementer country of the program in order to solve this industrial power's over-capacity problem. The third one is for going up circulating the implementer country's domestic currency.³²³

In this sense, in line with the Chinese government's purpose for the Renminbi's internationalization, China's one of the purposes regarding BRI is to go up of the current insufficient global circulation level of the RMB in the face of its rather high trade surplus.³²⁴ Thanks to this ambitious project, China aims to connect Asia and Europe via infrastructure projects, promising to provide financing, especially for the parties involved in infrastructure projects. In this sense, with a minimum project size of USD 1 trillion, it is a critical step that would serve China's target to enhance RMB circulation.³²⁵ Correlatively, as a part of the BRI, the Silk Road Fund was founded in 2014 to fund infrastructural projects in the countries through the initiative. During that era, 68 countries were a part of the initiative.³²⁶ Apart from these, the fourth reason is to strengthen the existing alliance relations between the implementer country and the allied countries.³²⁷

³²² Iris Pang. (2018, 6 June). "China's Belt and Road: Bigger than the Marshall Plan." ING. Retrieved: <https://think.ing.com/articles/china-belt-and-road-bigger-than-the-marshall-plan/> (Access: August 7, 2021).

³²³ Simon Shen, Wilson Chan. (2018). "A comparative study of the Belt and Road Initiative and the Marshall plan." Palgrave Communications, 4. 1-11. pp.9.

³²⁴ Gjoza. (2018). Ibid. pp. 12.

³²⁵ Anja Manuel. (2018, 26 March). "The Staggering Impact of China's 'Belt and Road Initiative.'" The Atlantic. Retrieved from: <https://www.theatlantic.com/international/archive/2017/10/china-belt-and-road/542667/> (Accessed on: July 4, 2021).

³²⁶ The Chinese administration stated that it would have provided RMB100 Billion worth of additional resources for financial support to BRI in May 2017, and "RMB-denominated outbound investment funds", which worth of RMB 300 Billion, would have been created. For further info, Ann Marie Plubell, Siyao Liu. (2017). "A Snapshot of Renminbi Internationalization Trends Under One Belt One Road Initiative." EMPEA Legal & Regulatory Bulletin – Summer 2017. pp.9.

³²⁷ Shen, Chan (2018). Ibid.

Lastly, the fifth cause is pushing the countries to withdraw from alliances among these countries and the rival power of the implementer country. For the Marshall Plan, the USA's implementer country against the USSR for West Europe. Allied countries with the rival powers were East Europe, and the leaving one was Yugoslavia. Today, this example is related to the USA, China, and other countries, especially Asia.³²⁸ In a word, the most notable similarity between Marshall Plan and BRI is the emergence with the aim of providing regional or worldwide supremacy.³²⁹ However, there are three critical differences between the two programs. Firstly, BRI contains geography from England to Australia.

On the other hand, for Marshall Plan, this scope included mainly Western European countries. Besides, the financial resources foreseen for the BRI are many times higher than the Marshall Plan. Accordingly, while the financing of the Marshall Plan cost 12 Billion USD (approximately 180 Billion USD in today's worth), the total investment financing foreseen for implementing BRI varies between 4 and 8 trillion USD. It proves the importance of the BRI to the Chinese government and why the Trump administration has identified the project as "insulting."³³⁰ China's softening of the fiscal tightness principle stated in the "Washington Consensus"³³¹ while providing loans to the countries that are party to the initiative, and the size of the loans given to the debtor countries, contrary to the economic power of these countries, is the focus of criticism towards the initiative. Accordingly, China's steps, like the takeover of Sri Lanka's Hambantota port, in December 2017, which was built as a part of the initiative, caused BRI to be considered a debt trap and tool of China for its imperial expansion.³³² Besides, the "Beijing Consensus" against the aforementioned

³²⁸ Ibid.

³²⁹ "The belt and road to China's hegemony in Asia". (2017, 17 May). Mint. (Access: August 7, 2021.) Retrieved from: <https://www.livemint.com/Opinion/uvUUhjhojJ4Zp2DYY8dtFN/The-belt-and-road-to-Chinas-hegemony-in-Asia.html>

³³⁰ Steinbock. (2018). Ibid. pp.516-517.

³³¹ Thomas P. Cavanna.. (2019). "Unlocking the Gates of Eurasia: China's Belt and Road Initiative and Its Implications for U.S. Grand Strategy." Texas National Security Review. 2(3), 11-37. pp.20.

³³² Nicholas Phillips. (2019, 5 September). "The Trade War is Smart Geopolitics." National Review. <https://www.nationalreview.com/2019/09/us-china-trade-war-smart-geopolitics/> (Access: August 8, 2019).

"Washington Consensus" is a reflection of the Sino-American competition in terms of the two countries' approaches in development models for emerging countries.

To sum up, institutions like AIIB and NDB, organizations like Shanghai Cooperation Organization (SCO), and investment projects such as BRI that China has put forward are interpreted can be interpreted as China's challenge to the US-centric international system.³³³ The possibility that China's economic, political, military, and technological escalation will lead to establishing an alternative world order with these institutions signifies the rationale for the arising of the US administration's concerns about China and its introduction of trade wars. Accordingly, as can be deduced from the "Power Transition Theory (PTT)," trade wars arose from the probability of another power's rise against the current hegemon. This sort of process could conclude in the exchange of the international position of these two countries in time by disappearing the power gap between both countries on a regional and global scale.³³⁴ In particular, the concerns created by China's military and economic rise against the USA are considered as a "national security problem," and non-military projects such as BRI are perceived as non-negligible defiance in parallel with the Chinese government's technology policies by the USA administration. The possibility of establishing a world order based on China's international supremacy, defined as the "Chinese dream" -or the "Chinese century"³³⁵- worries the USA administration with proportional to the rise in China's development level in the areas mentioned above³³⁶ because it provides China much of soft power.³³⁷ In the light of all this, it is possible to evaluate the USA-China trade wars as a reaction of the Trump administration against the remarkable rise of China, which may also trigger the rapid decline in the global position of the USA. In this respect, the USA-

³³³ Mark Beeson. (2016). "How Serious is the China Challenge?." *Global Asia*, 11(2), 56-63. pp.61.

³³⁴ Min-hyung Kim. (2019). "A real driver of US-China trade conflict: The Sino-US competition for global hegemony and its implications for the future." *International Trade, Politics and Development*. 3. 30-40. pp.37.

³³⁵ Hal. (2018), *Ibid.* Access: August 8, 2021.

³³⁶ Bill Gertz. (2018, 17 May). "China 'Dream' Is Global Hegemony." *The Washington Free Beacon*. Retrieved: <https://freebeacon.com/national-security/china-dream-global-hegemony/> (Access: August 8, 2021).

³³⁷ Nguyen Thi Thuy Hang. (2017). "The Rise of China: Challenges, Implications, and Options for the United States." *Indian Journal of Asian Affairs*, 30, (1/2), 47-64. pp.59.

China trade war is essentially a geopolitical and strategical struggle, not a trade war.³³⁸ Its focus is the conflict for the hegemony of the two countries in the international arena. For this reason, it can be identified as "the new cold war" as well.³³⁹



³³⁸ Daniel Gros. (2019). "This is not a trade war, it is a struggle for technological and geo-strategic dominance." CESifo Forum. 20. 21-26. pp.21.

³³⁹ Zhao Suisheng, Dan Guo. (2019). "A New Cold War? Causes and Future of the Emerging US-China Rivalry." Vestnik RUDN. International Relations. 19. 9-21. pp.9.

4. CONCLUSION

In this study, protectionist policies, also called trade wars, are discussed from the standpoint of economic gain and political hegemony. In this respect, the study was carried out within the discipline of international political economy, a part of global economics. The fundamental aim is to question great powers' political and economic rationale behind the "trade wars" and reveal that such processes have emerged primarily for political ambitions instead of the mainly propounded economic gains as the primary goal. Specifically, the trade wars that started between the United States of America (USA) and the People's Republic of China (PRC) in February 2018 are discussed using theoretical perspective and historical examples on the relationship between protectionist policies and hegemonic competition. In this sense, it has been tried to demonstrate that trade wars are a struggle for hegemony based on technological and geopolitical superiority. They are triggered with the effect of a long-term political-economic competition rather than commercial friction. For this reason, the political reasoning in the emergence of similar processes has been analyzed by revealing the economic consequences of trade wars. Structurally, first, the contradiction between economic discourses of governments in order to rationalize the trade wars and concrete results has been shown up. Then, the root causes pointing to the rivalry relationship between the rising power and the current hegemon are examined.

The thesis deals with the economic consequences around the concept of current account and bilateral trade deficit. The other target is to establish a connection between the theoretical perspective and the examined real example between China and the USA. A consistent and sequential interrogative structure has been tried to be formed for reviewing the subject within this approach. On the other hand, at this point, there is a crucial limiting factor that should be mentioned in terms of the study. The USA-China trade wars, which started in February 2018, are examined until the Phase 1 deal signed in January 2020, within the scope of the study. Besides, the Covid-19 pandemic, which emerged following this date, formed another limitation for

examining. It had an ultimately determining effect on worldwide political and economic developments.³⁴⁰

Hence, these developments do not allow the chance to explore the process of trade wars independently and purely after this date. By the influence of this methodological approach, there are three significant subjects as the main body of the thesis.

Firstly, the theoretical approach behind the trade wars has been examined primarily in tariff and currency wars and presented with historical examples. In this section, the reason why currency wars are specifically addressed is to show that trade wars are not limited to tariff applications and that the currency policies after the 2008 Global Financial Crisis (GFC) have a notable impact on the emergence of the USA-China trade war. Thus it is highlighted that these processes affect each other. Accordingly, today, the view of liberalization of international trade with globalization is defended within the argument that as the trade volume increases. Thus, military conflicts decrease and, world peace may be maintained for a longer time. However, according to the realist approach, states always aim to gain more power because states always aim to preserve their interests, power, and security at the highest level. These policies mostly emerge with the justification of compensating for economic losses and protecting domestic producers against foreign producers with import restrictions or export promotion. On the other hand, these policies, followed by using tariff and non-tariff barriers, increase costs and create a loss for consumers contrary to the target, specifically in the case of retaliation. This situation gives a clue that there is another reason for this policy in a theoretical sense. From this point, hegemonic competition between great powers has been studied to prepare a theoretical background.

³⁴⁰ Sara Hsu. (2021, 3 March). "The US-China Trade War Is Still Happening." The Diplomat. Retrieved from: <https://thediplomat.com/2021/03/the-us-china-trade-war-is-still-happening/> (Accessed on: August 9, 2021).

For understanding hegemony within the scope of the central question of the thesis, the concept of power and balance of powers has been analyzed. Also, the aim of the hegemonic power for protecting and maintaining its current position in the world economy and political order against another rising power has been investigated. Accordingly, the history of the modern capitalist world, which contains about the last four centuries, has a cyclical and repetitive structure. The fundamental actors of this system are states. Therefore, in order to understand the international political economy correctly, first of all, interstate relations should be examined. According to this approach, historically, the hegemon may decline and be replaced by another hegemon over time. The fact that such a “power transition” has taken place between the Netherlands and the UK and between the UK and the USA is quite suggestive in terms of China-USA relations.

Additionally, global trade is affected by power relations between states. As indicated in Hegemonic Stability Theory (HST), while the rising powers follow protectionist policies, also defined as mercantilism, the states in the position of hegemonic power during their economic development process generally encourage free trade. As the rising powers promote development by investing in the industrial sector, they become superior to the existing hegemon in production and export over time. In the face of such a case, the hegemon shifts its investments from the industrial sector to the financial sector due to diminishing profit margins and consolidating its power in the global financial system. Thus the hegemon wants to enhance its economic power and maintain its international position; however, if the possibility that the hegemonic power can be overtaken by the rising power, especially in economy and technology, becomes more substantial, the hegemonic power turns to protectionism. It is the result of the hegemon's perception of the rising power as a national security threat, also called the "Thucydides Trap." As a continuation of this theoretical introduction, this section also deals with examples of past trade wars like currency wars, Smoot-Hawley Tariffs, and Japan-USA trade wars. Specifically, currency wars are evaluated as a process that paves the

way for the USA-China trade wars via facilitating the following export-oriented development policy by China and increasing bilateral imbalances with China and USA.

Secondly, in the next chapter, the USA-China trade wars are tackled with the context of economic profit and international political power affairs under the light of all these theoretical discussions. Trump, who was elected as the President of the USA in 2016, has stated that since the campaign period, the USA will start a trade war if he is elected on the grounds of the increase in the trade deficit against China. Within the framework of his claims, President Trump's policies can be summarized in three points. The first is to withdraw from multilateral agreements such as TPP, which causes the current account deficit to increase and promotes bilateral trade agreements. The second is the increase of customs duties and tariffs against many countries, especially China. Through Section 301 and Section 232, the third is protecting the US-origin companies against intellectual property violations, especially by China. In response to the USA administration, the Chinese government emphasized that these developments are a natural result of globalization and existing relations should be improved multilaterally. However, the Trump administration started imposing tariffs on solar panels imported from China in February 2018 and steel and aluminum in March 2018. In the face of this development, tariff practices had turned into a trade war when China began to apply retaliatory tariffs to soybean and airplanes in April 2018.

As seen in the USA-Japan trade wars, the USA administration's claims have intensified, especially with the discourse regarding the increase in the USA's current account deficit and bilateral trade deficit. However, discussions made within the framework of the possibility that the Japanese economy would overtake the US economy for that period lost their importance, particularly with the effect of these developments that emerged in the 1990s, like the financial bubble and global financial crisis. Then, foreign trade focus for the

USA has shifted to China, especially after 2001, after it joined the World Trade Organization (WTO). Nevertheless, contrary to the Trump administration's emphasis regarding the importance of this issue, in the era of the USA-China trade wars after 2018 and until the Phase-1 Deal in January 2020, the current account deficit and a bilateral trade deficit of the USA against China has not decreased remarkably. Accordingly, at the end of 2018, China was the country with the most significant trade deficit in the USA.

Moreover, the current account deficit of the USA against China increased by 11.6% compared to the previous year. On the other hand, in 2019, China lost its position as the leading country in the current account deficit of the USA. Nevertheless, this indicates that the trade wars are quite insufficient in terms of the economic contribution provided by the US, given that the deficit in goods trade has decreased by only about 16 Billion USD, and the total trade deficit (including services) by solely approximately 11 Billion USD. The deficits in the current and capital and financial accounts, which point to the sustainability problem in the USA's balance of payments, did not eliminate as of January 2020. Similarly, the NIIP position of the USA is still negative. In other words, the trade deficit, the balance of payments deficit in total and negative NIIP that emerged as a result of the international reserve money position of the Dollar did not disappear as a result of the trade wars. It should not be ignored that the potential effects of this situation on the sustainability of the USA hegemony depending on the reserve currency position of the Dollar always may create a threat perception in the USA administration.

In addition, the Trump administration's claims that tariff implementations will pave the way for the USA economy to grow by over 3% annually has been refuted by the growth rates of 2.9% in 2018 and 2.3% in 2019. In particular, the decrease in the growth rate in 2019 compared to the previous year despite the diminishing of the trade deficit in 2019 signifies the irrationality of the Trump administration about the

starting of trade wars for economic reasons. This situation has paved the way for the central question of the study. Accordingly, as can be understood from these data, the USA administration's insistence on protectionist policies, not economic gain, but the aim of maintaining political hegemony, was effective. From this point on, the study focuses on examining the controversial issues between the USA and China regarding the affairs between global hegemony and trade wars.

At the point of examining the USA-China trade wars around controversial issues, primarily currency and technology policies were explored. Then, two other important topics that constitute contentious matters beyond the economy between the USA administration and China on the IMS and hegemonic rivalry have been discussed. These are the Internationalization of the Renminbi in the context of organizations and institutions that China has attempted to establish as an alternative to the current global monetary system and China's regional and global geopolitical escalation via the rise of its military influence in the Asia-Pacific region. Specifically, China's assertive infrastructural project, the Belt and Road Initiative, has been tackled within the Chinese government's probable strategical aims in order to found a China-led world order. From this point of view, in the study, it has been emphasized that trade wars are not friction solely about commercial barriers and tariffs but to be a process of technology and industrial policies, intellectual property rights, and exchange rate policies geopolitical competitions. Thus, these four sub-headings have been questioned within the framework of the USA threat perception about China as a rising power against its hegemony, since China's increasing economic power and size mainly paved the way for the Trump administration to initiate trade wars. These exhibit that trade wars are essentially a hegemony struggle.

In terms of trade wars and commercial relations between the USA and China, the first point to be highlighted is the similarity of China's economic model to that of Japan, especially after 1978. Since, like in the case of

Japan-the USA trade frictions, China became the largest second economy in the world with this economic model. This situation has prepared the ground for the arising of the USA administration's threat perception to China regarding the "possibility of its catching up with the USA" in terms of the global political and economic power affairs. As a reflection of this, the Chinese governments have been accused of following a mercantilist policy by the USA for a long time, especially following China's entry into the WTO in 2001 owing to the increasing current account deficit. Accordingly, thanks to export incentives, cheap labor, capital controls, technology transfer policies, and undervalued exchange rate policy, China has been gaining comparative advantages in international competition, and it causes the USA's foreign trade deficit to increase. Especially in the 2008 GFC period, China's high growth rates and current account surplus, unlike the rest of the world, raised the USA administration's objections on this subject. In particular, China has been at the center of the "currency manipulation" discourse of the USA administrations due to its exchange rate policy for many years. Eventually, it was officially labeled as a "currency manipulator" by President Trump in August 2019 as a reflection of the trade wars. At this point, the prominent debate is the allegations that China may undermine the US Dollar's global position by dumping and selling approximately 3 trillion USD of its forex assets and over 1 trillion US treasury securities in its hand. However, the Chinese government has not made such a move, at least for now, in order not to lose its export advantage, most probably. Nevertheless, the study underlines that this possibility was seen as a serious threat by Trump to the global status of the USA.

The subject of technological competition in the USA-China trade wars is discussed in two main points in the thesis. These are economic growth and technological capacity, which are defined as economic and structural, respectively. Accordingly, 9-10% growth rates in the Chinese economy, which lasted for many years, began to decline to 6-6.5%, especially after 2015. From this date on, this level has been started to call "new normal" by the Chinese government. In the face of this development, the government has declared

that it will ensure an economic transformation from labor-intensive export industries to knowledge-intensive technological sectors in order to make its economic growth sustainable. In this framework, the Made-in-China 2025 program has been announced. All of them are indications of the Chinese administration's desire to maintain its economic rise against the United States. Structurally, China's technology transfer policy, especially towards foreign companies, and the USA's accusations of intellectual property rights violations indicate the Chinese government's goal for increasing technological advancement level. In this regard, China's most ambitious policy is the Made-in-China 2025, an industrial strategy program announced in 2015. According to this program, in which ten sectors are selected as a priority, the government aims to go up to its advanced technology investments in accordance with the "Industry 4.0" concept. Thus the government targets to become the country with the most advanced technology globally on the 100th anniversary of the People's Republic of China in 2049. China, specifically in recent years, has become prominent with the increasing number of its R&D and patent studies against the USA. In this context, the sanctions imposed by the USA against China's companies, especially against ZTE and Huawei, show how serious the two great powers are in information technologies reveals. In this sense, it is claimed that China has been at the "Sputnik Moment" in the field of "artificial intelligence (AI)." It should also be noted that these technologies are generally used in military technologies, which may change the international balance of powers. In the same vein, it is quite possible to say that the tariffs of solar panels, which are the initiators of trade wars, are a reflection of the developing competition between the two countries in terms of energy supply on technology policies. All these developments demonstrate that the trade wars between two great powers are a conflict of hegemony for dominating the field of technology.

Furthermore, as stated above, after examining these two issues, developments in the international monetary system (IMS) and geopolitical frictions between the USA and China are discussed to reveal that trade wars are a conflict of hegemony. Firstly, the issue examined is the Renminbi's internationalization, which was

added to the IMF's SDR (Special Drawing Rights) basket in 2015. Accordingly, China has an intention to replace the Renminbi with US Dollar's international reserve currency status in the long run. To this end, China has been taking steps such as issuing digital Renminbi, bilateral swap agreements, the establishment of Asain Infrastructure Investment Bank (AIIB), of which 57 countries are founding members, and the NDB (New Development Bank) with BRICS countries. In addition, as an alternative to the petrodollar or post-Bretton-Woods System, in which oil is sold in Dollars to keep its international reserve position, instead of the Dollar being supplied for gold in the world, China brought the petro-yuan system, based on gold, to the agenda. In this system, the oil will be sold in the Renminbi. Although the worldwide use of the Renminbi is relatively low compared to the US Dollar, it is evident that all these government steps can change this situation by making the Renminbi more international. In such a case, it would more threaten the global status of the US Dollar. The most crucial point is that the Chinese government creates an alternative system to provide loans for developing countries against the Bretton-Woods institutions like WB and IMF through these institutions and organizations. In the study, expressly, it has been noted that these steps formed the basis of the trade wars initiated by the USA against China in the context of the conflict of hegemony.

Lastly, in the main body of the study, the geopolitical frictions between the USA and China, which started the trade war, were examined within the framework of the Belt and Road Initiative, competition for the Asia-Pacific region. Accordingly, China is a country that can surpass the USA in terms of real GDP in the 2030s and 2040s with its rapid economic growth rates. Continuing these increases form a possibility for coming across the two countries in military fields. Because, as a rising power gets more affluent, it invests more in the defense industry to consolidate its international position and protect itself. It is why the high-tech industrial strategy followed by the Chinese government is seen as a national security issue by the USA. At this point, especially the Asia-Pacific region, where 70% of the world trade passes, hosting half of the world's population and rapidly developing, becomes the decisive geopolitical center of the 21st century.

From the time of President Obama, the USA started to shift its foreign policy center to this region. It signed the TPP (Trans-Pacific Partnership) agreement with the region's countries, which President Trump later withdrew. China's increasing military presence in the region and especially the construction of artificial reefs in the East China Sea and the South China Sea and arming these regions has triggered to escalate the Sino-American competition

Beyond all these, China's bringing forward the Belt and Road Initiative (BRI), which partially or broadly encompasses European, Asian and African continents by sea and land routes, is another notable reason for the geopolitical rivalry between both countries. Many scholars consider the BRI as a part of China's trying to eliminate the excess capacity in its economy. Both scholars and the politicians call the attention that the Chinese government has been targeting to make infrastructural investments through the loans provided to the countries party to the initiative. Besides, it has been trying to eliminate the excess capacity in its economy with these projects. The most crucial subject of objection regarding this initiative is the claim that China follows an imperialist policy by confiscating the establishments and lands of those countries when the loans provided cannot be paid. It has even been propounded that the Chinese government is lending intendedly large sums in these regions to force countries for this result. Thus, China has been increasing its global impact. Therefore, China presents BRI as an alternative development model with the "Chinese Dream" label against the "Washington Consensus," highlighting the free market economy for third-world countries. The USA administration has interpreted these steps as preparation for the "Chinese century" within the framework of the development model called "Beijing Consensus." Such all steps of China are perceived as a severe threat by the USA administrations. In the light of all this, trade wars briefly can be considered an attempt by the USA to prevent China from becoming a global power through a large-scale project such as BRI and ambitious policies such as MiC 2025. In a word, trade wars are not an economic war but a hegemonic war at the center of technology and geopolitics.

Within the framework of the discussions made throughout the study, the importance of this thesis can be gathered at the point that it offers a prospective point of view for future studies. In parallel, after Joe Biden was elected President, according to the Office of the Director of National Intelligence report on April 9, 2021, China was identified as the biggest national security threat against the USA.³⁴¹ In addition, the Biden administration did not take a quick concrete step towards the abolition of tariffs, contrary to the rhetoric against the trade war during the election campaign.³⁴² It indicates that the issue of trade wars will maintain its importance for a long time in the context of hegemonic affairs between both of the great powers. Here, the emergence of similar processes between different countries in addition to the USA-PRC trade wars is quite remarkable as well. In this sense, it is possible to evaluate the policies followed by Saudi Arabia and Russia regarding oil prices in 2020, during the weeks when the Covid-19 pandemic became widespread, reflecting the mercantilistic approach to the race gain market share in oil supply.³⁴³ This struggle has also been called an oil war, and it forms another crucial example to indicate the increasing importance of protectionist policies in the world.

Most importantly, in the context of the USA-China trade wars, two historical facts related to the USA hegemony after the Second World War make this process historically unique. The first of these is that Japan, as a rising power, did not go beyond posing an economic threat against the USA, in spite of its increasing industrial capacity and technological advancement, against the USA, especially from the 1980s to the 1990s. As a matter of fact, Japan's signing of the Plaza Accord in 1985 under the pressure of the USA, which was

³⁴¹ “Annual Threat Assessment of the US Intelligence Community.” (2021, 9 April). Office of the Director of National Intelligence. pp.6-9. Retrieved from: <https://www.dni.gov/files/ODNI/documents/assessments/ATA-2021-Unclassified-Report.pdf> (Access: August 10, 2021).

³⁴² Katie Lobosco. (2021, 25 March). “Biden has left Trump's China tariffs in place. Here's why.” CNN. Retrieved: <https://edition.cnn.com/2021/03/24/politics/china-tariffs-biden-policy/index.html> (Access: August 10, 2021).

³⁴³ Sadi Uzunoğlu. (2020). “ABD-Çin Ticaret Savaşının Politik Boyutu.” In Sadi Uzunoğlu, Gökhan Sönmezler, İsmail Orçun Gündüz. (eds), Güncel Ekonomik Sorunlar: Ticaret Savaşları, 135-152. Istanbul: Literatür Publishing. pp.145-147.

exerted an influence by the effect of the perception about the Soviet Union as the main security threat in the Cold War conditions, points to this fact.³⁴⁴ Namely, Japan could not ever become a potential military power against the USA.³⁴⁵ In addition, it is secondly, considering that the Soviet Union never reached the position of an economic power that would threaten the USA, apart from being a military threat in parallel with the space race and nuclear weapons during the Cold War. Therefore, it can be said that China has turned out to be the most severe opponent the USA has faced since the beginning of the Cold War.

Both historical points depict that the trade wars between the USA and China are a natural consequence of this unprecedented hegemonic rivalry between these two powers.³⁴⁶ For this reason, it is tough to say certainly how this hegemonic competition will result in terms of trade wars in the short run or the long run, in terms of geopolitical struggle. Since, before both world wars in history, there was the rise of the USA and Germany in the face of the decline of England, the dominant power in the international arena during those years. After the Second World War, the USA definitively took the position of England, while Germany finally surrendered to the USA at the end of the war. In other words, this competition was concluded against Germany but in favor of the USA.³⁴⁷ It is challenging to predict certainty about winning and losing in such competition in parallel to this. However, the Chinese government aims at transforming its economic strategy from a labor-intensive export model to a technology-intensive industrial policy model for structural and economic reasons. In this sense, its continuation to act independently from the USA in exchange rate policy indicates that the Chinese administration has learned many lessons from the USA-Japan case in the 1980s.

³⁴⁴ “What 1985 tells us about a US China trade war.” (2018, 18 April). Livemint. (Access: August 10, 2021). Retrieved from: <https://www.livemint.com/Opinion/L703XdTqrCM2G2fAphndL/What-1985-tells-us-about-a-US-China-trade-war.html>

³⁴⁵ Chi Hung Kwan. (2021, 7 January). “Deep-rooted Causes behind the China-U.S. Friction — Similarities to and Differences from the Japan-U.S. Friction.” Research Institute of Economy, Trade and Industry (RIETI). Retrieved: <https://www.rieti.go.jp/en/china/21010701.html> (Access: August 10, 2021).

³⁴⁶ Robert Grosse, Jonas Gamso, Roy C. Nelson. (2021). “China’s Rise, World Order, and the Implications for International Business.” *Management International Review*. 61. 1-26. pp.6.

³⁴⁷ Frederick William Engdahl. (2009). “Gods of Money: Wall Street and the Death of the American Century.” Wiesbaden, Germany: BookSurge

Accordingly, the bubble economy created by the appreciation made as a result of the Plaza Accord is a significant example for the Chinese government. Within this framework, the rising and easing of the tensions mentioned earlier or the emerging of new ones will be shaped by the steps taken by these two sides and other countries in the coming years.

Finally, the financialization process, which the USA is in as the hegemonic power today, results from the historical economic development process.³⁴⁸ From this point of view, countries generally shift the sectoral gravity center in their economy from the industry and manufacturing sectors towards the finance and services sector in parallel with the increase in their economic growth.³⁴⁹ However, this kind of transformation also depicts a decline in the worldwide superiority of states, which become the global hegemon in time, and their economic profitability in the international markets.³⁵⁰ Another power, particularly escalating in the manufacturing industry and technology sectors, can upset international power balances in such a period. Whether China will replace the USA as the dominant power in the international arena over the long run despite the trade wars initiated by the USA would be an essential question in future studies on trade wars and the results of their long term. In this sense, ultimately, after becoming the hegemon, China's financialization process would form other great discussions in the following years; since existing debates on China's financialization level and policies regarding this process will broaden and deepen.

³⁴⁸ Wanhuan Cai. (2020). "Financialization, Economic Structure Change, and the USA-China Trade War." *World Review of Political Economy*, 11 (2), 256-269. pp.257

³⁴⁹ *Ibid*, pp.258.

³⁵⁰ Arturo Guillén (2014). "Financialization and Financial Profit." *Brazilian Journal of Political Economy*, 34(3), 451-470, pp.459.

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THE APPENDIX: THE TIMELINE OF TRADE WARS BETWEEN UNITED STATES OF AMERICA AND PEOPLE’S REPUBLIC OF CHINA UP TO PHASE-1 DEAL

In terms of important events, the chronological development of the trade wars is as the following table:³⁵¹

Month-Year	Tariff Imposed by	What Happened?
May 2016	USA	During the presidential election campaigns, the USA's Republican presidential candidate, Donald Trump, claimed that China creates unfair trade conditions, and he described it as rape.
February 2018	USA	An additional 20% import duty has been imposed on the imports of solar panels from all countries except Canada.
March 2018	USA	The USA imposed an additional 25% tax on steel imports from countries other than certain countries (Argentina, Australia, Brazil, South Korea) and a 10% tax on aluminum (excluding Argentina and Australia) imports.
April 2018	China	China brought additional taxes ranging from 15 to 25% on 128 products for import of the USA, involving soybean and airplanes.
April 2018	USA	The U.S. Department of Commerce has banned American companies from trading with ZTE for seven years by ruling that the Chinese telecom company ZTE has violated sanctions against Iran and North Korea and fair trade rules.
April 2018	China	China has decided to impose an anti-dumping duty of 178.6% on sorghum imports from the US.

³⁵¹ Information in the table is cited from: Akkemik, K. A., Menteşoğlu-Tuncer, B. (2019). Çin-ABD Ticaret Savaşları Gölgesinde Çin Sanayi ve Teknoloji Politikaları. In Bakır, C., Yağcı, M. (eds), Çin Bilmecesi: Çin'in Ekonomik Yükselişi, Uluslararası İlişkilerde Dönüşüm ve Türkiye, 75-99, İstanbul: Koç University Publishing, pp.98-99.

June 2018	Negotiation	As a result of negotiations between the parties in the Beijing administration, ZTE is allowed to continue its activities in the USA.
June 2018	USA	The USA has announced that it would impose a 25% customs duty on 818 products worth USD 34 billion to be imported from China.
July 2018	China	China has announced that it would impose a 25% customs duty on 545 products worth USD 34 billion to be imported from the US.
July 2018	USA	The USA has announced that it will impose a 10% customs duty on 6,000 products worth 300 billion USD imported from China. Later, on the orders of President Trump, it was announced that the customs tax rate could rise to 25%.
August 2018	China	The Ministry of Commerce of the People's Republic of China declares that it will impose between 5% and 25% customs duties on 5,207 import items worth 60 billion USD.
August 2018	Negotiation	Negotiations were held between the parties, but any favorable results were not gotten.
September 2018	USA	The USA administration announced that it would impose an additional tax of 10% for \$200 billion worth of import products from China, taking effect in September 2018, and 25% for other items of import to enter into force in January 2019.
September 2018	China	China has announced that USD 60 billion of product items imported from the USA would be imposed to a 5% to 10% customs duty.
December 2018	Negotiation	Chinese and American delegations came together at G-20 Summit in Buenos Aires to decide on a ceasefire on the ongoing trade wars between the parties. Accordingly, until March 2019, the parties will refrain from raising tariffs and applying new tariffs. China will import more from the USA and the parties will work for a solution.

December 2018	China	The Ministry of Finance of China explained that it has temporarily removed the 25% customs duty on US cars and the 5% customs duty on USA-origin auto parts. Besides, China declared that it will re-start to import soy from the USA in July.
January - April 2019	Negotiation	Chinese and American delegates met in Beijing and Washington, respectively. President Trump has announced that the ceasefire in the trade war with China will be extended.
May 2019	USA	The USA announced that it would impose a customs duty of 10% to 25% on the import items of 200 billion dollars imported from China as of 10 th May.
June 2019	China	China has announced that it would impose additional taxes ranging from 5% to 25% on 60 billion USD worth of import items from the US. In addition, China declared that it would open an investigation into FedEx Corporation on the ground that it has diverted trade through Japan.
June 2019 ³⁵²	Negotiation	At the G20 summit in Osaka, American and Chinese delegations agreed not to impose new tariffs and reduce limitations against Huawei. China, besides, accepted to import agricultural products from the USA, even though they were not identified item by item.
August 2019	USA	The USA has declared that 10% additional customs duty will be imposed to the \$ 300 billion worth of import items from China.
August 2019	China	China has stopped importing agricultural products from the USA. Also, the Chinese Renmimbi was depreciated, and USD 1 became equal to more than 7 Yuan.
August 2019	USA	The U.S. Treasury Department labeled China's administration due to manipulating the value of the Chinese Renminbi.

³⁵² As from this row, the information in the table is cited from this source: Timmons, H., Adler, L. (2020, January 15). Timeline: Key dates in the U.S.-China trade war. Reuters. Retrieved from: <https://www.reuters.com/article/us-usa-trade-china-timeline/timeline-key-dates-in-the-u-s-china-trade-war-idUSKBN1ZE1AA>

August 2019	USA	The Trump administration announced that until December 15, some of the 10% tariffs would be postponed, which are imposed on the imported product item worth of a total 300 billion USD.
August 2019	China	China declared that additional tariffs would be imposed for retaliation on 75 billion worth of items imported from the USA.
September 2019	USA	After the Chinese delegation and the U.S. Trade Representatives meeting, the US administration declared an exception in the customs tax for about 400 items imported from China.
October 2019	USA	The U.S. Department of Commerce included 28 Chinese corporations in its entity list on the grounds of being a part of human rights violations in the Xinjiang Uighur Autonomous Region.
October 2019	USA	As a result of the high-level meeting that continues two days, President Trump declared an agreement, which is called Phase 1, that involves the suspension of intended tariffs and an undertaking to purchase more agricultural products by China despite the fact that there are no details.
December 2019 ³⁵³	Negotiation	China and the USA agreed to sign a trade agreement the day before 15% tariff would start to be imposed by the US on products imported from China which is worth 160 billion USD. Also, The Trump administration agreed to diminish tariffs for imported products from China, which is a total worth of 120 billion USD in September, and the Chinese administration agreed to suspend duties on products imported from the USA before it takes effect on 15th December.
January 2020	Deal	The USA and China came to a trade agreement called phase one. Accordingly, China agreed to purchase additional product items and services worth 200 billion USD in the next two years. The deal involves the suspension of an intended customs tariffs and duties on product items imported from China, which are worth

³⁵³ As from this row, the information in the table is cited from this source: US-China Trade War Timeline: All the key dates since July 2018. (n.d.). South China Morning Post (SCMP). Retrieved from (Accessed: July 26, 2021): https://multimedia.scmp.com/widgets/vert_timeline/?id=tradewarannv

		162 billion USD approximately, and then falling by half of the tariffs of 15% on imported product items, which are totally valued at 110 billion.
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Table-1: The Developmental Processes of the USA-China Trade Wars from February 2018 to Phase-1 Deal

