State University of Trade and Economics

Department of World Economy

QUALIFYING PAPER (PROJECT)
on the topic:

“The impact of the China – US trade war: financial effects”

(based on the data of Credit Agricole Ukraine, Kyiv)

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ABSTRACT

Kashuba Dmytro: "The impact of the China – US trade war: financial effects" - based on the data of the Credit Agricole Ukraine.

The qualification paper is aimed at obtaining a master's degree in the field "Economics", educational program "International Economics".

The China–US trade war since 2018 has become a major driver of global financial instability. Escalating tariffs and restrictions reshaped investor expectations, redirected capital flows, and increased volatility in currency, debt, and equity markets. The study examines theoretical views on financial channels of trade conflicts and shows how the bilateral dispute affects financial systems, multinational corporate strategies, and global value chains. Medium-term scenarios of rivalry are outlined, with emphasis on risks for international financial institutions and emerging economies. The results suggest that prolonged tensions will sustain market uncertainty and accelerate regionalization of finance, underscoring the need for stronger multilateral coordination and modern tools for dispute prevention.

Keywords: Trade war, financial markets, capital flows, currency fluctuations, investment risks, global value chains, economic rivalry, financial stability.

АНОТАЦІЯ

Кашуба Дмитро Ігорович: "Вплив торговельної війни між Китаєм і США: фінансові наслідки" – за даними Креді Агріколь Україна.

Кваліфікаційна робота спрямована на здобуття ступеня магістра за напрямом "Економіка" за освітньою програмою "Міжнародна економіка".

Торговельна війна між Китаєм і США з 2018 р. стала одним із ключових чинників нестабільності світових фінансів. Тарифна ескалація змінила очікування інвесторів, перерозподілила міжнародні потоки капіталу та посилила коливання на валютних, боргових і фондових ринках. У роботі розглянуто теоретичні підходи до фінансових каналів торговельних конфліктів і показано, як двостороннє протистояння впливає на національні фінансові системи, стратегії ТНК і глобальні ланцюги вартості. Окреслено середньострокові сценарії розвитку суперництва та ризики для міжнародних фінансових інституцій і країн, що розвиваються. Висновки підтверджують: тривалі напруження підтримують невизначеність і прискорюють регіоналізацію фінансів, що вимагає посилення багатосторонньої координації та сучасних механізмів запобігання спорам.

Ключові слова: Торговельна війна, фінансові ринки, потоки капіталу, валютні коливання, інвестиційні ризики, глобальні ланцюги вартості, економічне суперництво, фінансова стабільність.

State University of Trade and Economics

Faculty of International Trade and
Law Department of World Economy
Educational Degree «Master»
Specialty 051 «Economics»
Educational program «International Economics»

Approved by

Head of the Department
_____Ganna DUGINETS
«____» _____ 20___.

Task

For a qualifying paper

of DMYTRO KASHUBA

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1. Topic of a final qualifying paper:

"The impact of the China – US trade war: financial effects"

Approved by the Order of SUTE of «___»_____20__№_____.

2. Term of submitting by a student his/her terminated paper: till

3. Initial data of the final qualifying paper:

Purpose of the paper is to analyze the financial impact of the China–US trade war on the global economy, including its consequences for the two largest world economies and the transformation of international financial and trade flows.

The object is the financial and trade relations between countries under the conditions of the trade dispute between the two leading world economies – the USA and China.

The subject is the global financial outcomes of the conflict, including impacts on capital and stock markets, exchange rates, investment flows, corporate financial strategies, and the financial aspects of dispute resolution tactics.

4. Consultants of the research and titles of sections which were consulted:

Section	Consultant (last name and initials)	Date and signature	
		The task given	The task received
1	Sarkisian L.H.		
2	Sarkisian L.H.		
3	Sarkisian L.H.		

5. Contents of a qualifying paper (list of all the sections and subsections):

INTRODUCTION

SECTION 1: ANALYSIS OF THE FINANCIAL DIMENSIONS OF THE CHINA–US TRADE WAR

1.1. Theoretical foundations of financial conflicts within international trade

1.2. Assessment of the financial consequences of the China–United States confrontation for both economies

Conclusions to the section 1

SECTION 2: GLOBAL FINANCIAL CHALLENGES ARISING FROM THE CHINA–US TRADE WAR

2.1. Influence on global financial markets, investment flows, and international trade dynamics

2.2. International institutional and multilateral financial responses to the conflict

Conclusions to the section 2

SECTION 3: FUTURE SCENARIOS FOR THE CHINA–US ECONOMIC AND FINANCIAL RIVALRY

3.1. Forecast of the long-term financial and economic implications of the conflict

3.2. Policy recommendations, regulatory tools, and strategic approaches to resolving financial tensions

Conclusions to the section 3

CONCLUSIONS

REFERENCES

6. Time schedule of the paper:

No.	Stages of the qualifying paper	Terms of the final qualifying paper	
		dejure	defacto
1.	Choosing and approval of the final qualifying paper topic		
2.	Preparation and approval of task for the final qualifying paper		
3.	Writing and pre defense of the 1st part of the final qualifying paper		
4.	Writing and preparation of scientific article		
5.	Writing and predefense of the 2nd part of the final qualifying paper		
6.	Writing and predefense of the 3rd part of the final qualifying paper		
7.	Preparation of the final qualifying paper (title, content, introduction, references, appendences), presentation of master diploma paper on the department and predefense in the committee, additional processing, getting a review from a teacher in a related department		
8.	Additional processing, printing, preparation of material to final qualifying paper defense		
9.	Presentation of the final qualifying paper on the department and on the deanery, receiving of referrals for external peer review		
10.	Defense of the final qualifying paper in the Examination Board	According to the schedule	

7. Date of receiving the task 27.02.2025

8. Scientific advisor of the research Larysa SARKISIAN

9. Manager of the educational program Liudmyla KUDYRKO

10. The task received by the student Dmytro KASHUBA

11. Response of scientific adviser of the qualifying paper

The qualifying paper of Dmytro Kashuba on the topic “The impact of the China – US trade war: financial effects” (based on the data of Credit Agricole Ukraine) is completed on the actual topic and is in line with the approved requirements of “International Economics” educational program.

In the first chapter, the theoretical foundations of international trade conflicts are summarized, the essence and instruments of trade wars are clarified, and channels of their impact on macroeconomic and financial indicators are systematized. Particular attention is paid to tariff and non-tariff restrictions, investor expectations, and the role of information shocks in shaping financial volatility.

In the second chapter, an empirical analysis of the financial consequences of the China–US trade war is carried out. The dynamics of bilateral trade, exchange rates, and capital flows are examined, key stages of the conflict are identified, and the reaction of global and regional financial markets is evaluated using statistical and graphical methods.

In the third chapter, scenarios for the further development of the China-US are proposed, and possible risks for the world and Ukrainian financial systems are evaluated.

In conclusion, the final qualifying work of Dmytro Kashuba meets the requirements for the Master's level of education of the “International Economics” educational program and can be admitted to public defense.

Scientific adviser of the qualifying paper
Pre-defense check mark — Larysa SARKISIAN
(last name and initials, signature, date)

12. Conclusion on the qualifying paper

A qualifying paper of the student — Larysa SARKISIAN
(last name and initials)

may be admitted to the Examination Board.

Dmytro KASHUBA
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Manager of the educational program — Liudmyla KUDYRKO
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Head of the Department — Ganna DUGINETS
(last name and initials, signature, date)

«____» _____2025.

CONTENT

INTRODUCTION

Actuality of the research is driven by the transformation of the China–US trade war from a bilateral tariff clash into a major trigger of global financial instability. Since 2018, escalating tariffs and countermeasures have disrupted trade flows and increased uncertainty in world markets, influencing exchange rates, asset prices, borrowing costs, and cross-border capital movements. Because the conflict is rooted in technological rivalry, intellectual property disputes, and geopolitics, its financial impact is deeper than in traditional trade wars, as investors and firms reprice risks along global supply chains. Ongoing tensions therefore sustain market volatility, redirect portfolio and FDI flows, and accelerate the regionalization and fragmentation of trade and finance.

The financial aspects of the China–US trade war and their global spillovers **have been analyzed in works** by many international and Ukrainian scholars, including Chad P. Bown, Pablo Fajgelbaum, Pinelopi Goldberg, Mary Amiti, Stephen Redding, David Weinstein, Gita Gopinath, Caroline Freund, Eddy Bekkers, Sebastián Goulard, as well as researchers focusing on market volatility and capital-flow reactions such as T. Yang, S. Shi, J. Wang, and E. Kohlscheen; among Ukrainian authors, V. Yurchyshyn and O. Rogach have addressed the broader economic and financial risks for emerging markets.

The **purpose** of the research is to investigate the financial effects of the China–US trade conflict on the global economy, to assess the consequences for the financial systems of both countries, and to explain how prolonged trade tensions reshape international capital flows and global trade-finance patterns.

The **tasks** of the research are:

- to examine the essence, main drivers, financial outcomes, and settlement instruments of trade wars in the modern global economy;
- to identify the key causes of the China–US trade tensions and evaluate their direct financial consequences for both countries;

- to investigate global financial-market shifts triggered by the conflict and assess how they altered international trade-finance patterns;
- to analyze the strategic financial and corporate responses of China and the United States, as well as multilateral reactions from international institutions;
- to determine the role of economic diplomacy and international organizations in mitigating financial risks and supporting dispute settlement;

The **object** of the research is the system of international trade and financial relations formed under the conditions of the China–US trade dispute, including the bilateral economic ties of the two leading global economies and their spillovers to third countries.

The **subject** of the research is the financial consequences of the conflict for the world economy and for China and the United States in particular, covering market reactions, exchange-rate dynamics, capital and investment flows, debt and stock-market volatility, as well as the political and technological drivers that intensify these financial effects. The **methods** of research consist of review of academic and analytical literature, comparative and structural analysis, data synthesis, statistical and econometric assessment, mathematical calculations, ratio and trend analysis.

Scientific and practical novelty of the obtained results lies in providing a finance-focused assessment of the China–US trade war's transmission channels and proposing policy measures to reduce financial risks and strengthen dispute-settlement and international cooperation.

Research results approbation is contained in the article on the topic "The impact of the China – US trade war: financial effects", published within the scientific journal "Young scientist".

Qualifying paper structure and volume are as follows: the paper consists of an introduction, three sections two paragraphs each, conclusions and references. It contains 88 sheets, 6 tables, 8 figures, and 120 references.

SECTION 1. ANALYSIS OF THE FINANCIAL DIMENSIONS OF THE CHINA – US TRADE WAR

1.1 Theoretical foundations of financial conflicts within international trade

World trade is commonly viewed as one of the main engines of global economic growth and national welfare. International exchange expands market access for firms, encourages specialization, increases productivity, and gives consumers a wider choice of goods and services at lower prices. Trade openness also strengthens competition, which pushes producers toward innovation, technology upgrading, and efficiency gains. At the same time, the modern world economy is shaped not only by trade flows but by deep financial integration. Countries are connected through cross-border investment, global banking, portfolio diversification, and multinational corporate networks. Because of such interconnectedness, even localized trade tensions between major economies are able to generate large financial spillovers. When at least one key relationship becomes strained, trade disputes can quickly transform into trade wars that threaten not only commercial ties, but also international financial stability and market confidence.

The concept of a trade war is usually defined as an economic conflict in which states impose protectionist measures against each other, causing systematic restrictions in trade relations. Traditionally, trade wars were understood mainly through the lens of goods and services markets. However, in current conditions they also represent financial conflicts because trade barriers change investment expectations, influence risk assessments, and reshape capital allocation. A trade war develops when one country introduces restrictive policies in order to protect domestic producers or gain strategic advantage, while the other responds with retaliatory instruments. This reciprocal structure creates an escalation process that affects both the real economy and financial markets. Such conflicts may include tariffs, import quotas, domestic subsidies, currency measures, investment screening, export controls, and embargoes. As soon as these instruments are introduced, financial actors reprice

expected profits and macroeconomic trajectories. Thus, even without a significant immediate fall in trade volumes, the trade war already produces market volatility, shifts in exchange rates, and changes in borrowing and investment conditions.

Trade wars often begin when a government believes that a partner country uses unfair practices that harm domestic industries or national security interests. These unfair practices may include forced technology transfer, weak protection of intellectual property rights, subsidization of strategic sectors, discriminatory regulation, or manipulation of market access. The initiating country responds with trade barriers intended to reduce imports from the rival or to raise their prices. If the targeted country retaliates, the conflict escalates further. In modern globalized conditions, this escalation creates not only trade distortions but also uncertainty shocks, which have direct financial effects. Investors factor in weaker future cash flows for globally integrated firms, higher costs for import-dependent industries, and rising geopolitical risks. As a result, trade wars become sources of volatility in equity markets, widening credit spreads in debt markets, and waves of safe-haven flows in currency markets (Amiti et al., 2020).

Several key forms of trade barriers can be distinguished; each has a specific financial meaning.

Tariffs remain the central and most visible mechanism. A tariff is a tax imposed on imported goods that increases their domestic price. The idea behind tariffs is to reduce foreign competition, support local producers, and sometimes generate budget revenues. Yet tariffs also act as a powerful financial shock. First, they increase production costs for firms that rely on imported intermediate goods. Second, they reduce competitiveness of exporters if retaliation arises. Third, they lower expected profits for multinational companies operating across borders. Consequently, tariff announcements often lead to immediate corrections in stock markets, particularly for companies tied to global supply chains. The decline in equity valuations then reduces firms' ability to attract capital and discourages investment. In addition, investors tend to revise macroeconomic expectations downward, which affects sovereign bond yields and the cost of public borrowing.

Import quotas limit the physical volume of specific goods that may enter a country. Quotas protect domestic producers by reducing foreign supply. While they do not generate direct fiscal revenue, they often raise domestic prices and increase scarcity risk. From a financial perspective, quotas create uncertainty for firms that depend on imported inputs. Companies may need to hold larger inventories, adjust contracts, or seek alternative suppliers, increasing liquidity needs and working-capital costs. Such pressures can weaken corporate balance sheets and contribute to higher volatility in related industries' valuations.

Domestic subsidies are another protectionist measure. Governments can support local industries through direct transfers, preferential taxation, subsidized credit, or state procurement. Subsidies lower domestic firms' costs and strengthen their position against foreign competitors. However, subsidy schemes frequently cause financial distortions because capital is directed toward politically favored sectors instead of the most productive ones. When states compete through subsidies, fiscal burdens grow, and public debt risks may increase. Markets respond by raising sovereign risk premiums in case of over-expansion of subsidy programs, while corporate valuations may become inflated in subsidized sectors.

Currency measures, especially devaluation, have long been used to support exports and discourage imports. By lowering the value of its currency, a country makes exports cheaper abroad and imports more expensive at home. In the context of trade wars, exchange-rate movements are both instruments and outcomes. Tariff escalation often increases demand for safe assets, strengthening reserve currencies, while partner economies face depreciation pressures due to reduced trade expectations and possible capital outflows. As exchange rates fluctuate, debt servicing costs change, export profitability shifts, and portfolio allocations are restructured. Thus, currency volatility becomes a key channel through which trade wars affect financial stability (Waugh, 2022).

Embargoes, sanctions, and export controls represent the strictest type of trade-war instrument. These measures can ban trade in specific goods or technologies or limit investment access. In contemporary conflicts, such restrictions frequently target

high-tech sectors, critical raw materials, or strategic components. Financially, they generate deep structural shocks because markets interpret them as long-term barriers to innovation and future profitability. When a country loses access to advanced technologies or critical inputs, expectations of productivity growth decline. Equity prices fall, foreign investors reduce exposure, and long-term investment can be postponed or redirected to alternative regions.

Trade wars generate both short-term and long-term effects. In the short term, trade restrictions may protect particular domestic industries by lowering foreign competition. Certain firms can temporarily benefit from higher prices and growing domestic market shares. In some cases, governments also gain fiscal revenues from tariffs. However, such short-term positive effects are usually limited and quickly offset by retaliation and uncertainty. When partner states introduce countermeasures, export opportunities shrink and domestic industries suffer. Financial markets react almost instantly, raising volatility and reducing risk appetite. Investors may shift to defensive positions, which tightens credit conditions for firms and slows investment even in sectors not directly targeted by tariffs.

Long-term effects of trade wars are typically assessed as more damaging. Persistent protectionism reduces efficiency of resource allocation, weakens specialization gains, and slows technological diffusion. Consumers pay higher prices, lowering real incomes and reducing overall welfare. For firms, reduced competition can slow innovation and productivity improvement. From a financial standpoint, long-run trade wars raise risk premiums across markets. Higher uncertainty increases the cost of capital, widens corporate credit spreads, and depresses equity valuations. Firms delay long-term projects, banks become more cautious in lending, and cross-border capital flows shift toward less exposed economies. Over time, these processes reduce GDP growth and competitiveness of the economies involved.

The benefits and damages of trade conflicts can therefore be balanced. Among the potential benefits, trade wars may support struggling domestic industries, temporarily boost employment in protected sectors, and reduce specific trade deficits. They may also satisfy domestic political demands for “fair” competition or strategic

independence. Yet negative consequences dominate at the macro-financial level. Trade wars increase business costs, reduce consumption, and create market inefficiencies. They can weaken technological progress by limiting competitive pressure. Moreover, the financial costs—market volatility, higher borrowing costs, and reduced investment—tend to persist longer than any short-term gains. For this reason, economists generally view trade wars as costly and inefficient in the long run (Bown, 2021).

Economists also explain trade wars through several broad approaches focusing on their sources.

One approach interprets trade wars as rivalry for power. Realist perspectives emphasize that trade policy is shaped by global power dynamics. A dominant nation may initiate a trade war against a rising challenger to preserve technological leadership, secure strategic sectors, and prevent shifts in international influence. Such rivalry is not only about goods markets but about the control of future innovation rents and strategic supply chains. Financial markets interpret power-based conflicts as structural rather than temporary. As a result, they embed long-term risk premiums into asset valuations of firms and sectors exposed to the confrontation.

Another source is populism, inequality, and backlash against globalization. Since the late twentieth century, globalization delivered aggregate welfare gains but also widened inequality in some countries. In advanced economies, certain workers and regions faced wage pressures or job losses due to import competition, while global capital owners benefited from new markets. This imbalance fueled political coalitions demanding protectionism. Trade wars may therefore emerge as instruments of domestic political stabilization, even if they produce high economic and financial costs. Policy uncertainty created by such politically motivated actions discourages investment and accelerates capital flight from riskier sectors.

A third explanation stresses the crisis of multilateral trade governance. Neoliberal institutionalist theory argues that international organizations and rules help states to cooperate, solve disputes, and avoid escalation. When global institutions fail to adapt to new economic realities, unilateral actions become more

likely. Weakness of dispute settlement mechanisms and disagreements over how to regulate state intervention in markets undermine trust in multilateral frameworks. Such breakdown of rules amplifies financial costs because markets rely on predictable institutional environments. Once credibility declines, investors demand higher compensation for risk, increasing volatility and cost of capital.

The emergence of global value chains (GVCs) is another critical factor. Modern production is fragmented across borders, and intermediate goods cross multiple states before becoming final products. Due to this structure, tariffs or restrictions on one segment of the chain generate ripple effects across many industries and countries. Firms face higher costs, disrupted contracts, and the need to secure alternative suppliers. These disruptions have strong financial implications: companies require more liquidity, adjust cash-flow planning, and often revise long-term investment decisions. Highly integrated firms and economies push for liberalization, while import-competing sectors push for protection, producing complex domestic coalitions.

Domestic interest groups and firms' heterogeneity also contribute to trade wars. Because trade conflicts have large distributional effects, different groups lobby in opposite directions. Import-competing industries typically welcome protection, expecting higher margins. Exporters and multinational firms tend to oppose restrictions because retaliation reduces foreign sales and increases balance-sheet risk. The degree of internationalization matters as well. Firms dependent on imported components or foreign financing usually resist tariffs because they raise costs and increase uncertainty. These differences influence policy outcomes and shape uneven financial effects across sectors (Chen & Zhang, 2023).

National political institutions aggregate these preferences and translate them into regulation. Election systems, veto players, party competition, and institutional constraints influence whether short-term protectionist coalitions dominate over long-term welfare considerations. Some institutional structures amplify populist incentives and facilitate rapid escalation, while others encourage negotiation and compromise. Still, in periods of strategic rivalry, even strong institutions may fail to block

escalation.

Trade wars are also linked to concerns about unfair practices, trade imbalances, and exchange-rate dynamics. Persistent bilateral deficits create pressure for protectionism. Currency appreciation may raise concern about lost competitiveness, fueling demands for tariffs, while accusations of subsidies or strategic industrial policy intensify confrontation. These macroeconomic tensions are often expressions of broader structural shifts in the global economy and are frequently used to justify aggressive trade measures in political discourse.

To interpret the political economy of trade wars, scholars commonly rely on several theoretical perspectives.

Realism emphasizes that national power and the distribution of power in the international system shape trade policy choices. From this viewpoint, trade relations are influenced by strategic competition. Governments treat trade as a zero-sum arena and are likely to trade more with allies while restricting rivals. Financial aspects are also part of this logic because capital and technology are seen as sources of national power. Realism is closely associated with neo-mercantilism, which links wealth accumulation to strategic dominance and supports proactive state intervention for developing key industries. Neo-mercantilist reasoning has historically explained US confrontations with other rising powers and is central to modern disputes based on industrial policy and technological competitiveness.

Liberal theories, in contrast, stress that trade is positive-sum, enhancing wealth and peace. Liberals argue that domestic economic interests generally restrain conflicts because trade and investment benefit broad groups. Trade agreements therefore serve as instruments that allow governments to signal determination without destructive escalation and build trust with partners. Yet liberal logic may be weakened when strategic industries or security narratives dominate, because governments prioritize geopolitical goals over economic welfare.

Neoliberal institutionalism builds on liberal ideas and highlights the role of international organizations in supporting cooperation. Institutions reduce uncertainty through transparency, reciprocity, and dispute settlement. When institutions fail,

cooperation collapses and unilateral protection rises. From a financial lens, institutional weakness intensifies costs because markets price a higher level of political risk.

Constructivism emphasizes that identities, beliefs, and narratives shape trade policy. States act not only based on material interests but also on perceived roles and rivalries. If a partner is framed as an adversary, restrictive policies are expected to persist. This perception impacts financial markets because investors treat such conflicts as structural, embedding long-term uncertainty into asset prices and capital allocation (Egger, 2019).

Historical experience illustrates that trade conflicts have accompanied world trade since its early development, though the financial character of these conflicts has evolved. Earlier episodes were transmitted mainly through trade volumes and employment. Modern trade wars spread faster due to integrated capital markets and instant information. Today, tariff announcements can trigger immediate movements in global equity indices, exchange rates, and bond yields. As a result, financial spillovers reach third countries quickly, even if they are not direct participants in the dispute. This “financial contagion” distinguishes contemporary trade wars from their historical predecessors.

There are also several approaches to resolving trade wars, aiming to restore stability in trade and finance. One mechanism is bilateral negotiation, where parties seek compromise directly. Successful negotiations can quickly reduce uncertainty and stabilize markets. Another mechanism is WTO dispute settlement, which provides a formal rule-based process of consultations, panels, and appeals. While effective in principle, its ability depends on institutional credibility and enforcement. Arbitration and mediation use impartial third parties and may be faster than formal litigation, which is valuable because financial markets react positively to quick reduction of uncertainty. Retaliatory sanctions can push a partner toward talks but are risky, as they often increase volatility and can provoke capital flight. Comprehensive trade and investment agreements offer long-term solutions by addressing structural disputes and establishing clear rules for future settlement. Regional organizations and

international courts may also assist in conflict mediation, especially when global institutions weaken. Often, diplomacy complements economic measures, as third-party states or institutions attempt to shorten escalation cycles (Feng, 2019).

A significant part of academic research on trade wars now focuses on their financial dimension. Quantitative trade models are used to measure welfare and output losses and show that even targeted bilateral wars can generate global spillovers. Firm-level studies reveal that tariff shocks reduce investment, alter pricing behavior, and force firms to reconsider supply-chain financing. Research on trade policy uncertainty demonstrates that uncertainty itself is a macro-financial shock, lowering investment and output through expectation channels. Financial-market analyses show that trade tensions affect stock returns, raise volatility, and influence sovereign and corporate borrowing costs. Studies of GVCs highlight that deeper fragmentation makes trade conflicts financially more damaging, because exposure is embedded across multiple countries and sectors. Finally, research on technological restrictions emphasizes that modern trade wars reach beyond tariffs by shaping long-term innovation rents and investment strategies. Scholars underline that the China–US conflict becomes especially costly because it combines tariffs, financial shocks, and technological rivalry, making its consequences broader than in traditional trade wars (Ossa, 2014).

To conclude, open trade and globalization have delivered large welfare gains, but they also created deep financial interdependence that increases vulnerability to conflicts. Trade wars arise from power rivalry, domestic political pressures, governance failures, and strategic industrial competition. In the modern global economy, they transform quickly into financial conflicts through market volatility, risk revaluation, exchange-rate shifts, and capital-flow reallocation. Because the long-term economic and financial damage usually exceeds any short-term protective gains, the international community must rely on negotiations, credible dispute settlement institutions, and coordinated diplomacy to reduce uncertainty and restore stability. This theoretical foundation allows moving forward to the next subsection, which evaluates the specific financial consequences of the China–US trade war for

both economies and for global markets.

1.2 Assessment of the financial consequences of the China–United States confrontation for both economies

Over the last three decades China–US economic relations have developed into one of the most intensive and strategically important trade and finance corridors of the global economy. China has played the role of a core manufacturing platform and a large recipient of foreign capital, while also accumulating substantial holdings of dollar assets through persistent trade surpluses. The United States, in turn, became China's largest final market for exports and an essential supplier of high technology, investment, and managerial know-how. Such interdependence created mutual benefits. American consumers gained access to low-cost goods that supported real purchasing power, US multinationals expanded sales and profits in the Chinese market, and China used export revenues to accelerate industrial modernization and raise living standards. Yet deep interdependence also implied deep vulnerability. Once political tensions intensified, the shock did not remain inside the sphere of goods trade. It spread rapidly into financial systems by affecting corporate profitability expectations, market risk perception, exchange-rate dynamics, and cross-border investment planning. Therefore, the trade war between China and the United States must be interpreted not only as a tariff conflict but also as a financial confrontation that reshaped incentives and stability on both sides (Vasylytsia & Chekh, 2022).

A brief overview of escalation helps to show how trade decisions turned into financial impulses. After years of gradual integration, the conflict accelerated in 2018 when the United States introduced large tariff packages on Chinese imports and simultaneously expanded the use of restrictions against selected Chinese firms in technology and telecommunications. China responded with retaliatory tariffs targeted at politically sensitive US exports and with tighter regulatory scrutiny of some American companies. From that moment, bilateral relations evolved into alternating

cycles of escalation and partial de-escalation. Each new tariff round, each restrictive measure in high-tech sectors, and each breakdown or renewal of negotiations produced visible reactions in market pricing. One distinctive feature of this war was that financial reactions often came first, while real trade reallocation followed later. This indicates that expectations and confidence were among the first destabilized elements of the confrontation, and that the financial system served as an early warning mechanism for the real economy (table 1.1).

Table 1.1

Chronology of key trade and financial escalation events between China and the USA for the period 1979 to 2024

Year	Event	Main trade / policy measures	Key financial & market effects
1979	Normalization of relations	Establishment of formal diplomatic and trade relations between the USA and China	Start of gradual integration of China into the US-centred trade and financial system
2001	China's accession to the WTO	China joins the WTO and commits to tariff cuts and market opening	Rapid growth of bilateral trade; rising role of China in global value chains and in US corporate profit strategies
2005	Beginning of RMB flexibility	China moves from a strict dollar peg to a managed float regime	Greater sensitivity of exchange rates to trade and capital-flow news; RMB becomes an emerging regional reference currency
2008–2009	Global financial crisis	Coordinated fiscal and monetary stimulus; no major protectionist spiral	Collapse and then recovery of global trade; increased financial interdependence between the USA and China via reserves and US Treasuries
2010–2016	Growing frictions	Anti-dumping and safeguard cases in steel, solar panels, tyres and other sectors	Rising policy uncertainty but limited systemic impact; financial markets still price in continued integration
2018	Formal start of trade war	US Section 232 tariffs on steel and aluminium; Section 301 tariffs on Chinese goods (in several waves)	Sharp increase in volatility of equity indices, sectoral stock re-pricing, first risk-premium rise on China-exposed firms and currencies
2019	Tariff escalation and tech sanctions	Additional US tariffs; China retaliates; US adds Huawei and other firms to the Entity List; partial tariff truce later in the year	Episodes of stock-market sell-offs, flight to safe assets, inversion of US yield curve; RMB weakens beyond 7 per USD; higher global risk aversion
Jul-05	"Phase One" deal and COVID-19 shock	Phase One trade agreement with limited tariff rollback and purchase commitments; pandemic disrupts implementation	Extreme global market stress, then recovery; trade war risk becomes embedded in pricing of supply-chain-intensive and China-related assets
2021	Policy continuity under Biden	Tariffs largely preserved; review of China policy; first coordination steps with allies on technology and security issues	Markets adjust to a "new normal" of persistent trade and tech tension; investors focus more on regulatory and geopolitical risk in China
2022	Technology and security turn	CHIPS and Science Act; export controls on advanced semiconductors and equipment; tighter screening of Chinese investment	Deepening financial fragmentation in high-tech; revaluation of semiconductor, telecom and AI firms; acceleration of diversification and "friend-shoring"
2023	Broader geo-economic rivalry	Expansion of controls on dual-use technologies; discussions on outbound-investment screening; EU and other partners tighten their own China policies	Capital reallocation from China-centric assets to alternative markets; higher premia for geopolitical risk on both equity and bond markets
2024	New US tariff package and regulatory tightening	New Section 301 tariffs on EVs, batteries, solar products, steel, aluminium, medical goods; proposed limits on de minimis imports and e-commerce flows; China adopts a new Tariff Law	Renewed volatility in auto, clean-energy and commodity markets; further uncertainty for global value chains; rising probability of prolonged partial financial decoupling

Source: structured by author based on (IMF, 2025);

Before tariffs actually entered into force, markets had already begun to price the possibility of a structural rivalry. Policy discourse in the United States increasingly framed China not only as a trade partner but as a strategic competitor in high-technology leadership, industrial dominance, and geopolitical influence. When the first tariff packages were announced, investors immediately revised expected supply-chain costs, future access to the Chinese market for US exporters, and the stability of global manufacturing networks. Financial markets responded with declines in equity valuations for exposed firms, shifts in bond yields reflecting weaker growth expectations, and the restructuring of currency positions in favor of safe-haven demand. Even in periods when trade volumes had not yet adjusted, policy uncertainty itself produced market turbulence. This uncertainty channel is fundamental because it magnifies the shock far beyond the direct mechanical effect of tariffs.

The scale of interdependence that magnified the impact can be seen in pre-war bilateral trade patterns. US imports from China had grown steadily for years, embedding Chinese goods and components into almost all segments of American consumption and production. After tariffs were imposed, imports declined in a phased manner, later partially rebounded under pandemic-driven distortions, and then weakened again as firms diversified suppliers. The trade corridor remained large in absolute terms, but its internal structure shifted away from heavily taxed categories and toward goods rerouted through third countries. These adjustments mattered financially because they forced corporations to redesign procurement contracts, renegotiate pricing structures, and reassess currency and credit exposure. The cost of restructuring was incorporated into earnings expectations, which is why equity markets reacted strongly even when aggregate trade totals appeared resilient. Figure 1.1 presents the evolution of US merchandise imports from China in 2016–2023, covering the pre-war period, the escalation phase, the temporary stabilization under the Phase One agreement, and the recent slowdown.

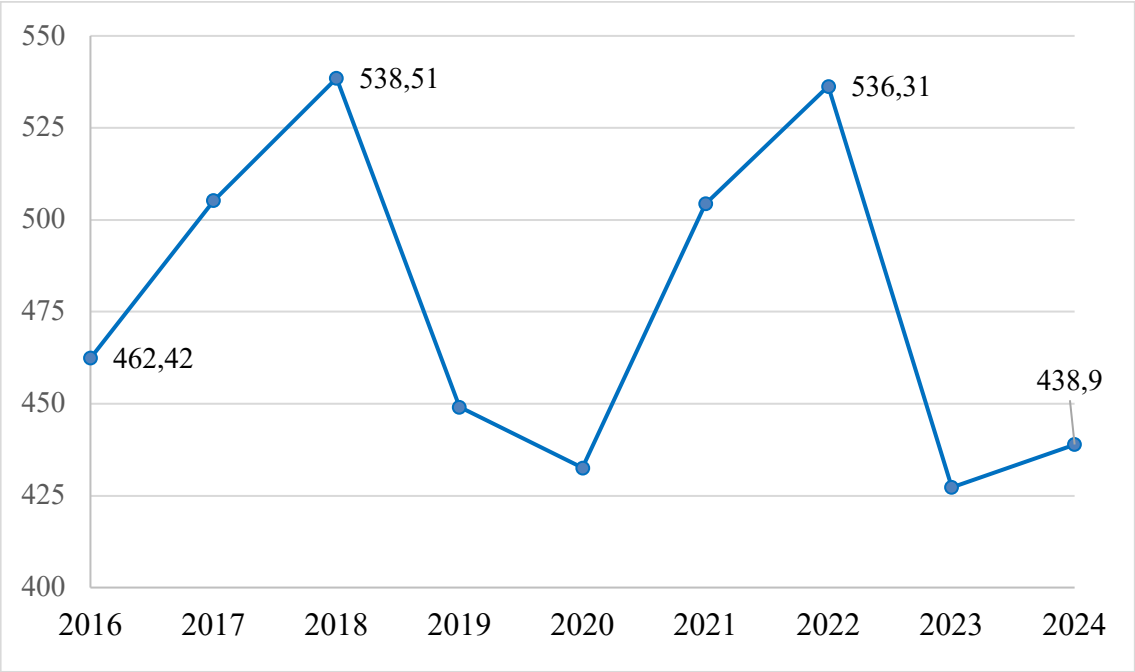

Figure 1.1. US imports of goods from China for the period 2016 to 2024 (in billions of US dollars.)

Source: structured by author based on (WITS, 2025);

As shown in Figure 1.1, US imports of goods from China increased steadily in the pre-war period, peaking in 2018 before the full escalation of tariffs. In 2019–2020, import volumes dropped noticeably, reflecting both the impact of the trade war and the shock of the COVID-19 pandemic. The subsequent rebound in 2021–2022 was driven by recovering demand, supply-chain adjustments, and the temporary stabilization introduced by the Phase One agreement. However, the decline observed in 2023 indicates that structural factors – including persistent Section 301 tariffs, tighter US export controls, and rising geopolitical risk – continue to weigh on bilateral trade.

The tariff trajectory became the core policy impulse. Within the first two years the United States expanded tariffs to cover several hundred billion dollars of Chinese imports, while China retaliated on a smaller but still substantial share of American exports (Zeng, 2025). The average tariff burden rose sharply on both sides, converting a previously low-tariff trade corridor into one of the most politically risky in the world economy. In financial terms, tariffs worked like a tax on cross-border value chains. They reduced expected earnings for globally integrated firms, raised

import costs for US producers dependent on Chinese intermediates, cut sales for Chinese exporters reliant on the American market, and forced investors to revise assumptions about long-term profitability. Before 2018, average applied tariff rates in bilateral trade were relatively low and broadly compatible with WTO commitments, but the escalation of the dispute dramatically changed this picture. Both governments introduced several rounds of tariff hikes, often in quick succession, targeting politically and economically sensitive products. To illustrate the intensity and symmetry of this tariff spiral, Figure 1.2 presents the average tariff rates imposed by the United States on Chinese exports and by China on US exports over the period 2018–2020.

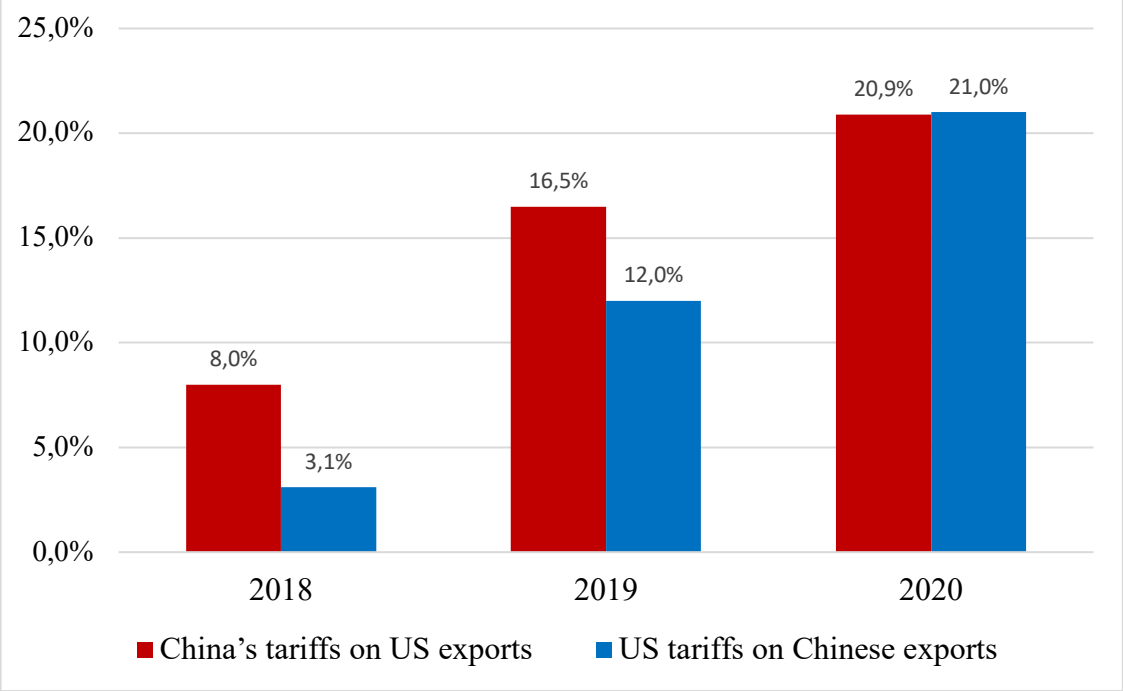

Figure 1.2. Average tariff rates imposed by the USA on Chinese exports and by China on US exports for the period 2018 to 2020 (in %)

Source: structured by author according based on (WITS, 2025);

As Figure 1.2 shows, China's average tariff on US exports rose from 8.0% in 2018 to 16.5% in 2019 and further to 20.9% in 2020, while the US average tariff on Chinese exports increased even more sharply, from 3.1% in 2018 to 12.0% in 2019 and 21.0% in 2020. Within just three years, the effective tariff burden on bilateral trade multiplied several times, transforming what had previously been a relatively liberal trade relationship into one of the most restricted among major economies. For

firms on both sides, this meant higher import costs, disrupted pricing strategies, and a need to reassess profit expectations and investment plans. For financial markets, the tariff escalation served as a clear signal of rising geopolitical and policy risk, contributing to periods of heightened volatility, shifts in sector valuations, and a gradual reallocation of capital away from the most exposed trade-dependent industries.

The financial effects on the United States emerged through several intertwined channels. The first was the reaction of equity markets. US stock indices repeatedly declined around major tariff announcements, and the deepest corrections were concentrated in firms with high exposure to Chinese inputs or Chinese sales. Investors expected higher input costs to squeeze margins and retaliation to cut foreign revenues. Importantly, these valuation losses were not only short-term noise. Market capitalization reflects the discounted value of expected future profits, and a fall in valuation implies a fall in the expected return to capital. Once the return to capital falls, firms rationally reduce or delay investment, which is how stock-market responses transmitted trade shocks into slower real-economy expansion. This mechanism was most visible in manufacturing industries tied to global supply networks such as consumer electronics, machinery, transport equipment, and parts of the retail sector (Rao, 2025).

A second US channel was investment freezing and the rise in cost of capital. Trade uncertainty increased the perceived risk of long-horizon projects. Companies postponed plant expansions, redirected procurement away from Chinese suppliers, and shifted new investments either to domestic facilities or to third-country sites. In sectors where margins were already thin, firms chose to preserve liquidity rather than commit to irreversible capital spending. Even enterprises not directly targeted by tariffs faced weaker confidence because of higher market volatility and fear of future restrictions. Financial institutions priced higher risk into lending and demanded larger spreads for tariff-exposed borrowers. The result was a measurable decline of capital formation linked to escalation episodes, indicating that the trade war affected the US economy not only through trade balances but through corporate finance behavior.

A third dimension involved consumer prices, inflation expectations, and monetary policy. Tariffs raised the cost of imported consumer goods and intermediate inputs. Some importers absorbed part of the tariff burden, but a significant share shifted to final prices. Price effects were most concentrated in categories directly covered by tariffs, so inflation pressure was selective rather than uniform. During high-tension episodes, market participants revised expectations about Federal Reserve policy. Investors priced in weaker growth and rising downside risks, which increased demand for longer-maturity safe assets and put downward pressure on yields. This monetary expectations channel matters because it shows that financial markets translate tariff shocks into broader macro-financial equilibrium changes even when trade volumes adjust slowly (Yang, 2025).

A fourth US component was the bond market and fiscal spillovers. In escalation moments, Treasuries benefited from safe-haven flows, which lowered yields. Yet fiscal costs rose as well. The government introduced support packages for agricultural producers and some manufacturers hurt by Chinese retaliation, effectively redistributing tariff burdens across taxpayers and consumers. Thus, while tariffs generated revenue, a portion was offset by compensatory spending. This reinforces that tariff policy does not produce straightforward fiscal improvement; it reshuffles public resources and adds another layer of financial cost (Mazzocco, 2025).

Exchange-rate dynamics formed an additional US financial channel. The dollar strengthened in risk-off periods because global investors sought liquidity and safety. A stronger dollar partly dampened import inflation, yet it also reduced competitiveness of US exports at the same time that Chinese retaliation was suppressing access to the Chinese market. This dual negative impulse weakened earnings expectations for exporters and reinforced pessimism in exposed sectors. Therefore, the exchange rate acted as an amplifier rather than a stabilizer from the US perspective.

Sector-specific stress illustrates distribution of costs. Chinese retaliation intentionally focused on politically sensitive US exports, particularly agriculture.

Soybeans and other farm products faced higher barriers, reducing revenues and raising credit-risk in rural regions. Manufacturing industries using Chinese intermediates faced cost inflation and supply uncertainty. Some protected producers benefited temporarily through granting higher pricing power, but those gains were localized and short-lived. Aggregate equity responses remained negative around key policy shocks, implying that economy-wide losses exceeded sectoral relief.

China's financial consequences followed parallel but somewhat distinct pathways. Chinese stock indices and firm-level valuations declined around US tariff announcements, and the strongest falls were triggered by technology restrictions. Export-oriented manufacturers and technology-linked firms experienced the largest repricing because investors expected both weaker US demand and a possible structural barrier to upgrading. Since valuations influence financing capacity, falling market prices increased the cost of raising capital for private exporters and intensified their reliance on state-supported credit channels (Kaplan, 2025).

Exchange-rate movements were among the most important buffers and amplifiers in China. During major escalation phases the renminbi weakened, partly cushioning exporters by raising local-currency proceeds. At the same time, depreciation signaled rising risk to foreign investors and increased servicing costs for dollar-linked liabilities. This created a sensitive policy equilibrium. Chinese authorities sought to avoid a disorderly weakening while allowing enough flexibility to absorb external shocks. The result was higher exchange-rate volatility relative to pre-war years, and the RMB became more tightly linked to shifts in geopolitical news flow. Currency volatility therefore served as a financial amplifier, transmitting tariff shocks into broader risk-reassessment by global funds. riods of rapid tariff increases and rising geopolitical tensions tended to coincide with depreciation pressure on the RMB, while phases of partial de-escalation or renewed negotiations were usually associated with relative stabilization or temporary appreciation. To illustrate this mechanism, Figure 1.3 presents the movement of the RMB–USD exchange rate between 2017 and 2024 in the context of the main escalation rounds of the China–US trade conflict.

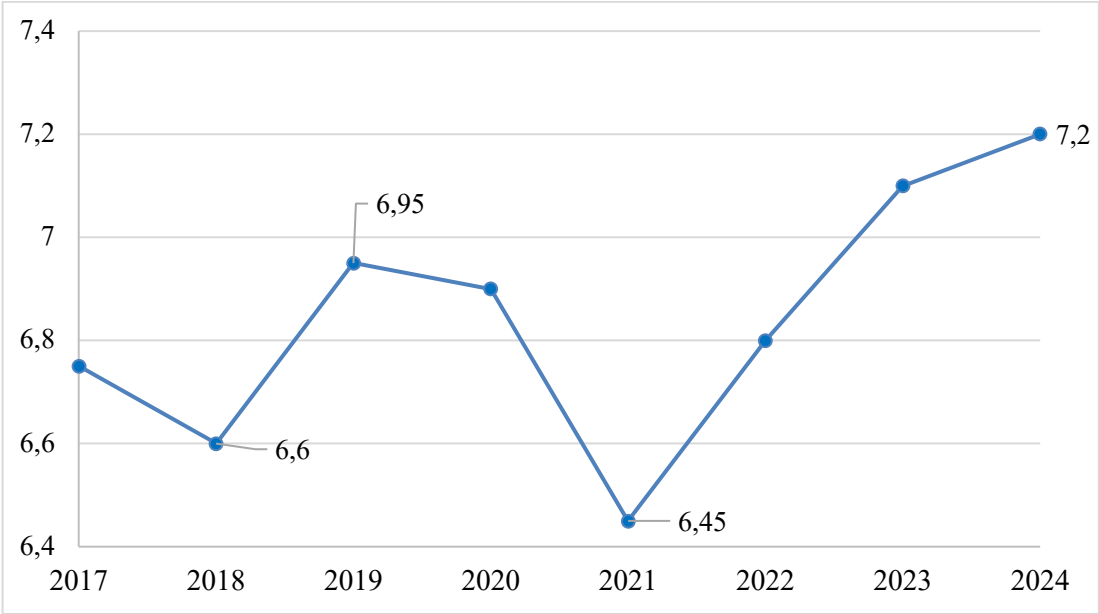

Figure 1.3. RMB to USD exchange rate movement compared with major tariff escalation rounds for the period 2017 to 2024.

Source: structured by author based on (Chen, Y., & Zhang, Y, 2023);

As shown in Figure 1.5, the RMB–USD exchange rate remained relatively stable before the onset of the trade war, but the escalation of tariffs in 2018–2019 was accompanied by a gradual depreciation of the renminbi against the dollar. This pattern reflects both the deterioration of investor sentiment towards Chinese assets and the authorities' decision to allow a weaker currency to partially offset the impact of US tariffs on exporters' competitiveness.

China's export-firm profitability was squeezed by tariffs. Some firms attempted to pass tariffs onto US buyers via higher prices, which reduced market share. Others absorbed costs through lower margins. In both cases the profitability decline increased dependence on working-capital financing, especially for small and medium exporters. Domestic banks and regional governments faced pressure to sustain credit to employment-intensive exporters. Such support softened short-run output losses but increased contingent liabilities inside the financial system, and in some provinces contributed to higher leverage growth (Huang et al., 2020).

A major financial consequence for China also appeared through capital-flow and investment reallocation. Bilateral FDI between the two economies weakened as screening tightened, technology sectors became politicized, and geopolitical risk rose.

Chinese firms reduced new investment into the US, while US companies became more cautious about long-term expansion in China, especially in strategic segments. New projects were increasingly redirected toward Southeast Asia, Mexico, and selected European states. This not only reduced bilateral capital intensity. It altered the geography of global investment, encouraging the rise of alternative manufacturing nodes and accelerating the regionalization of global finance.

Table 1.2

Estimated changes in bilateral direct investment and portfolio flows between China and the USA for the period 2016 to 2024

Year	US FDI flows to China (index, 2016 = 100)	Chinese FDI flows to the USA (index, 2016 = 100)	US portfolio investment in China (index, 2016 = 100)	Chinese portfolio investment in the USA (index, 2016 = 100)	Main tendencies
2016	100	100	100	100	Pre-trade-war baseline; stable two-way FDI and portfolio positions.
2017	110	120	105	108	Further integration; growing Chinese FDI in US assets and projects, moderate rise in US exposures to China.
2018	95	90	103	112	First tariff rounds; FDI starts to slow on both sides, but portfolio positions still expand mildly.
2019	80	65	98	115	Escalation of the trade war; sharp fall of Chinese FDI into the USA, US FDI in China also contracts.
2020	70	50	95	120	COVID-19 shock plus trade tensions; FDI collapses further, portfolio flows more volatile but Chinese demand for US assets remains strong.
2021	75	55	103	128	Phase One deal and partial recovery; some rebound in US portfolio claims on China, only marginal FDI improvement.
2022	78	52	105	135	Continued geopolitical frictions; FDI remains subdued, Chinese holdings of US securities keep rising.
2023	72	45	102	138	Export controls and tech restrictions weigh on new FDI; portfolio positions adjust slowly, with slight re-balancing by global investors.
2024	70	40	101	140	*Estimated*: persistent low bilateral FDI, mild growth of portfolio exposure to US markets; gradual financial fragmentation.

Source: structured by author based on (Huang et al., 2020);

Another distinctly Chinese dimension was the impact on offshore and cross-

listing finance. A substantial share of Chinese corporate funding had been raised through offshore markets, including Hong Kong issuance and US-listed ADRs. Escalation introduced new regulatory risks, including scrutiny over accounting standards, data security, and potential delisting. Even when delisting did not occur, the risk of it increased required returns from international investors. This raised financing costs for some Chinese firms and contributed to a gradual pivot toward domestic capital markets and Hong Kong as primary fundraising hubs. The financial outcome was a more segmented fundraising ecosystem, where access to US capital became less certain for Chinese corporate (Fajgelbaum et al., 2020).

Technology restrictions also created long-term valuation effects. Export controls on advanced semiconductors, chip-making equipment, and certain software limited China's access to critical inputs. Investors interpreted these restrictions as barriers to productivity convergence. Valuation multiples for some Chinese tech firms compressed, equity risk premiums rose, and state involvement in strategic funding expanded. China's policy response involved large-scale subsidized financing for domestic chip and high-tech substitution programs. While this cushioned long-term industrial strategy, it also increased the role of state credit, raising questions about medium-term efficiency and leverage (Obstfeld, 2021).

The domestic macro-financial response in China relied on fiscal and credit support. Slower external demand and weaker foreign-investor sentiment encouraged the use of infrastructure spending, tax incentives, and directed credit. Such measures stabilized employment and growth but produced a debt trade-off. Credit expansion, especially through local government financing vehicles and policy banks, helped absorb the trade shock, yet it also added to structural leverage pressures. Therefore, China's financial consequences included both immediate external-sector losses and a medium-term rise in internal financial vulnerability (Bilousova, 2021).

The conflict entered a new stage after 2020. The Phase One agreement eased rhetoric but did not remove most tariffs, leaving a high baseline of trade-policy risk. Post-pandemic competition broadened to future-growth sectors such as electric vehicles, batteries, renewable energy components, semiconductors, critical minerals,

and certain medical technologies. New US tariff increases on these goods with staged implementation over several years signaled political commitment to industrial bifurcation. Even though these measures were narrower than the broad rounds of 2018–2019, they shaped financial expectations more strongly because they targeted sectors that investors view as key for long-term technological leadership. Tariff policy thus reinforced the belief that rivalry will persist and that strategic industries will be protected through a mix of tariffs, subsidies, and export controls.

A crucial feature of the post-2024 stage is that the trade war increasingly merges with industrial policy competition. The United States uses a combination of selective tariffs, domestic subsidies, and investment screening to re-shore strategic production. China responds through large-scale state-guided finance, incentives for technological self-reliance, and policies aimed at stabilizing domestic demand. This development blurs the boundary between trade policy and macro-financial policy. For markets, it means that uncertainty is no longer limited to tariff lines; it concerns future standards, regulatory regimes, and the architecture of supply chains. As a result, both corporate and sovereign risk assessment incorporates geopolitical variables more heavily than before (World Trade Organization (WTO), 2024).

When financial outcomes for both economies are compared, several common patterns stand out. First, market volatility became persistent. Each escalation wave triggered immediate declines in equities, exchange-rate swings, and shifts in credit spreads, but risk premiums did not fully revert after truces. Investors therefore treat rivalry as structural. Second, investment planning shifted toward regionalization. Companies on both sides diversified suppliers and production sites, not only for cost optimization but to reduce geopolitical exposure. Finance followed production (Statista, 2025). FDI and portfolio flows increasingly moved toward third countries that could serve as alternative hubs. Third, financial policy became securitized. Both states treated technology, capital access, and supply resilience as national security concerns. This increased regulatory risk and reduced predictability for multinationals. Fourth, fiscal and credit costs rose. The US absorbed part of the burden through compensation packages and higher consumer prices, while China absorbed costs

through directed credit and industrial subsidies. Both approaches stabilized output in the short run but added to medium-term public-sector financial pressures. Fifth, the confrontation produced a new equilibrium of partial decoupling. Total trade remains large, but strategic sectors are more insulated, and bilateral trust in capital relations is weaker. The financial mirror of this is higher geopolitical risk pricing, diversified portfolio geography, and increasingly separate technological funding ecosystems (International Institute for Liberty, 2023).

Finally, an important financial implication of the war is the transformation of corporate strategies. American firms accelerated supply-chain “China plus one” models and increased hedging of tariff and currency risk. Chinese firms intensified diversification of export destinations, expanded use of domestic capital markets, and placed greater emphasis on state-supported research and development. In both cases, corporates shifted from efficiency-maximizing strategies toward risk-minimizing strategies. This strategic pivot is costly financially because risk reduction usually implies duplication of supply bases, higher working-capital needs, and lower scale economies. Yet under persistent geopolitical uncertainty it becomes rational. Therefore, the trade war’s financial impact is not a one-time shock; it is a long-term reorientation of investment behavior (Kiel Institut, 2025).

In sum, the China–US trade war produced a multi-layered financial shock. In the United States it depressed valuations in exposed sectors, weakened corporate investment, raised selective consumer inflation, shifted monetary expectations, reinforced safe-haven demand, and required fiscal redistribution. In China it lowered exporter profitability and equity valuations, pressed the currency, intensified regulatory risk for offshore funding, accelerated FDI diversion, and induced domestic credit support under conditions of rising leverage. The persistence and breadth of these outcomes show that contemporary trade wars operate through financial channels as strongly as through trade channels. Any realistic evaluation of the rivalry must therefore combine analysis of tariffs and supply chains with analysis of market risk dynamics, capital flows, and macro-financial stability. These results provide the basis for the next section, which addresses global spillovers and multilateral

responses to the conflict.

Conclusion to the section 1

To conclude, the China–US trade war demonstrates that modern trade conflicts extend far beyond tariff increases and quickly evolve into broad economic and financial shocks. Escalation between the world's two largest economies disrupts not only bilateral trade flows but also investment decisions, market expectations, and the stability of global value chains. The evidence reviewed in this section shows that tariffs and related restrictions generate persistent uncertainty, higher risk premiums, and volatility across equity, currency, and debt markets, affecting both domestic performance and international financial linkages. At the same time, the conflict has accelerated strategic adjustments in the United States and China, pushing both sides toward supply-chain diversification, industrial reshoring, and reduced dependence on the opponent in critical sectors. These shifts are likely to have long-term implications for global trade architecture and financial integration, reinforcing fragmentation and raising the importance of effective multilateral mechanisms to contain systemic risks.

SECTION 2. GLOBAL FINANCIAL CHALLENGES ARISING FROM THE CHINA – US TRADE WAR

2.1 Influence on global financial markets, investment flows, and international trade dynamics

The China–US trade war, though initiated through bilateral tariff measures, rapidly evolved into a systemic stress test for the global economy because it struck at the core of the world's trade–finance nexus. The two countries are not simply large traders; they are central nodes in global capital markets, reserve-currency architecture, and multinational production networks. When their relationship became confrontational, the impact was transmitted worldwide through three tightly connected channels. First, financial markets repriced risk as soon as escalation became credible, generating volatility that spread far beyond the tariff lines themselves. Second, international investment flows adjusted to a new environment of geopolitical uncertainty, leading to the diversion and regionalization of FDI and portfolio capital. Third, trade patterns and global value chains reconfigured in response to both tariffs and technology restrictions, reinforcing a longer-term shift from efficiency-led globalization toward resilience-led fragmentation. These channels interacted continuously, meaning that the global effects of the trade war cannot be understood as a linear sequence; rather, they formed a feedback loop in which market expectations shaped investment decisions, and investment decisions reshaped trade geography (World Integrated Trade Solution (WITS)).

A defining feature of the conflict has been its expectation-driven financial shock. Unlike many regional trade disputes that remain contained in specific sectors, the China–US confrontation produced repeated waves of global risk-off sentiment. Each major tariff announcement, technology restriction, or breakdown of negotiations triggered immediate reactions across equity indices, currency markets, and sovereign debt yields. Investors interpreted escalation not as a temporary bargaining tool but as a signal of structural rivalry, and therefore embedded a higher

geopolitical risk premium into asset prices. Global equity markets displayed synchronized declines around escalation moments, particularly in sectors with high exposure to supply chains that span China and the United States. Technology hardware, industrial machinery, consumer electronics, and transportation were among the most sensitive categories, because their profitability depends on stable cross-border input networks and predictable market access. The financial logic is that tariffs act like a negative productivity shock: when supply chains become more expensive or uncertain, expected cash flows fall, and the required rate of return rises. This dual movement lowers valuations and discourages investment, even before trade volumes visibly adjust. Episodes of sharp tariff escalation, new US restrictions on Chinese technology firms, and announcements of retaliatory measures were repeatedly accompanied by spikes in global equity volatility. These movements indicate that investors rapidly reprice risk when bilateral tensions intensify, even if the real reallocation of trade and production takes longer. To illustrate this dynamic, Figure 2.1 presents an indicative measure of global equity-market volatility for the period 2018–2024, together with markers of the main escalation waves of the China–US trade war.

Figure 2.1. Global volatility index (2018–2024)

Source: structured by author based on (Bown, 2019);

As shown in Figure 2.1, global equity volatility remained elevated during the first waves of tariff escalation in 2018–2019, reflecting investors' concerns about the

scope and duration of the China–US trade war. The most dramatic spike in volatility occurred in 2020, when the interaction between the trade conflict and the COVID-19 shock produced exceptional uncertainty for firms and financial markets. Although volatility declined in 2021, renewed tensions related to technology export controls and additional tariff measures contributed to another increase in market stress in 2022 and to persistently higher volatility levels in 2023–2024.

The volatility effect was not limited to equities. Global currency markets reacted sharply to escalation cycles, reflecting the safe-haven status of the US dollar and the vulnerability of trade-exposed currencies. In high-tension episodes, the dollar tended to appreciate as global investors sought liquidity and safety, while the renminbi faced depreciation pressure linked to weaker export expectations and the risk of capital outflows. Third-country currencies moved according to their position in the reconfigured trade landscape. Economies attracting diverted manufacturing and FDI often experienced appreciation tendencies or reduced depreciation risk support, while commodity exporters and supply-chain-dependent economies tended to weaken during risk-off waves. The key global tendency here is that exchange rates became more sensitive to geopolitical news flow than in the pre-2018 environment. In other words, “geopolitical beta” entered FX pricing: currencies were increasingly valued not only on macro fundamentals but on perceived alignment, exposure to trade shocks, and supply-chain resilience. Figure 2.2 illustrates how key exchange rates reacted to major escalation rounds in the China–US trade war. The lines show index values (2017 = 100) for the Chinese renminbi (CNY), the euro (EUR), and a synthetic emerging-market currency (EM FX) basket against the US dollar. This format allows to compare relative depreciation and appreciation patterns across currencies during years of tariff and technology shocks.

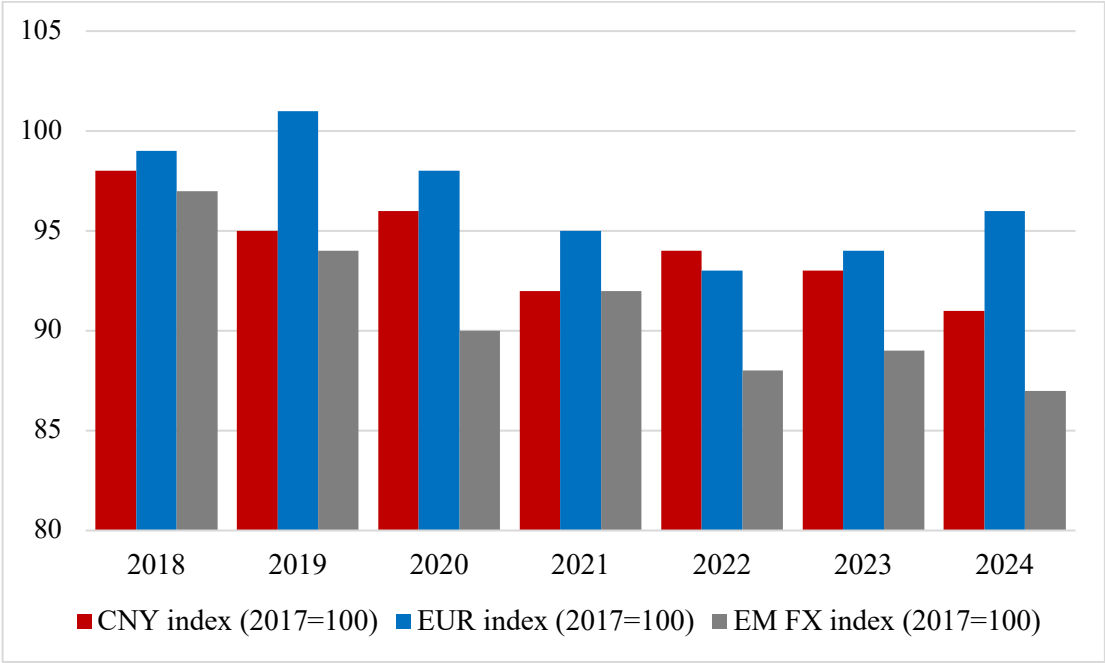

Figure 2.2. Global equity volatility and major escalation episodes of the China–US trade war, 2018–2024

Source: structured by author based on (Rao, 2025);

As the figure shows, the renminbi tends to weaken against the US dollar in escalation years such as 2018–2019, 2022, and 2024, reflecting higher uncertainty, portfolio outflows, and tighter US financial conditions. Emerging-market currencies react even more strongly, with the EM FX index declining steadily throughout the period, indicating that the China–US confrontation amplifies risk aversion toward riskier assets and economies. By contrast, the euro exhibits more moderate and partly divergent dynamics, responding not only to trade tensions but also to internal European factors and global monetary-policy cycles. Overall, the pattern confirms that exchange rates act as a key transmission channel through which the China–US trade conflict affects global financial conditions and capital allocation.

Debt markets likewise reflected the global risk cycle triggered by the trade war. In escalation phases, investors reallocated toward core safe assets—primarily US Treasuries, but also high-grade European sovereigns—compressing yields through stronger demand. At the same time, spreads on emerging-market sovereign and corporate debt widened, even in countries not directly involved in the dispute. This pattern illustrates the transmission of trade shocks into global financial conditions. A

tariff announcement between China and the US can lower expected global growth; lower expected growth raises risk aversion; higher risk aversion pushes capital toward safety; and that flow effectively tightens financing conditions for trade-dependent or externally financed economies (International Monetary Fund (IMF), 2019). For emerging markets, the implication is clear: the trade war functioned as an external financial tightening shock, increasing borrowing costs and forcing some governments to adjust fiscal and monetary stances to preserve stability. The war contributed to more frequent episodes of capital-flow fragmentation, where yield-seeking inflows alternated with sudden reversals driven by geopolitical news rather than domestic policy mistakes.

Beyond portfolio shifts, the trade war altered the structure and direction of foreign direct investment. Prior to 2018, multinational firms organized production largely for efficiency, with China serving as a primary hub for global assembly and intermediate manufacturing. Tariffs introduced a cost wedge into this model, while technology restrictions introduced a strategic wedge. As a result, firms increasingly pursued “China plus one” strategies, near-shoring, and friend-shoring (Yurchyshyn, 2019). The effect was a redirection of incremental FDI away from the China–US corridor toward alternative manufacturing nodes. Southeast Asia captured a significant share of electronics and consumer-goods assembly investment; Mexico benefited from its proximity and preferential market access under North American arrangements; India expanded its role in selected manufacturing and digital services; and parts of Central and Eastern Europe gained in industrial categories where they could substitute either Chinese or American supply. Importantly, this was not an absolute withdrawal from China, but a diversification of marginal capacity. Firms preferred to keep base operations in China due to scale advantages, but placed new plants and supply contracts in third countries to hedge geopolitical risk.

The financial meaning of this investment reorientation is substantial. FDI is the slow-moving backbone of trade geography: where firms invest today defines trade patterns tomorrow.

Table 2.1

Redirected FDI flows and emerging alternative production hubs linked to the China–US trade war for the period 2016 to 2023

Country / region	2016–2017 (pre-war, 2016=100)	2018–2019 (start of war)	2020 (COVID + tariffs)	2021–2023 (restructuring)	Main role in new supply chains
Vietnam	100	135	145	170	"China+1" hub for electronics, textiles and basic assembly
Mexico	100	115	105	130	Near-shoring platform for US-oriented manufacturing
India	100	110	120	145	Alternative location for tech and manufacturing FDI
Indonesia	100	112	108	125	Backup site for resource-based and basic manufacturing
Malaysia	100	108	102	120	Node in reconfigured electronics and semiconductor chains
CEE EU members	100	110	107	130	EU-based reshoring / friend-shoring destination
Other hubs	100	112	110	122	Secondary beneficiaries in labour-intensive sectors

Source: structured by author based on (Coxhead, 2025);

By redirecting investment, the trade war began to rewrite the map of global value chains. This process also raised the cost structure of globalization. Diversification and redundancy require duplicated supplier networks, higher inventory buffers, and more complex logistics. These adjustments increase working-capital needs, reduce scale economies, and raise unit costs. Thus, the war created a long-term upward pressure on the cost of global production, even if headline tariffs remain unchanged. From a macro-financial viewpoint, higher production costs reduce expected profitability and can contribute to structurally lower global investment growth, reinforcing the slowdown tendency that international institutions repeatedly warned about during escalation periods (Corporate Finance Institute, 2024).

International trade dynamics changed simultaneously through both direct and indirect mechanisms. The direct effect was trade diversion: tariffs raised prices for Chinese goods in the US market and for American goods in the Chinese market,

shifting demand to alternative suppliers. This diversion was large but uneven. In low-to-mid technology industries—furniture, apparel, household goods, basic electronics—production shifted faster because alternative suppliers could scale quickly. In capital-intensive or high-tech industries—advanced electronics, precision machinery, semiconductors—shift was slower because production ecosystems cannot be relocated easily. Therefore, the war produced partial decoupling rather than instant separation. Bilateral trade continued, but the share of third countries in sensitive categories rose, and re-export routes through intermediaries expanded. These "triangular trade" patterns allowed firms to maintain relationships while navigating tariff schedules, contributing to a more complex and less transparent trade map.

The indirect effect on trade dynamics was mediated through finance and expectations. Even in categories where tariffs were not applied, uncertainty about future restrictions lowered trade growth by discouraging investment in cross-border capacity. When firms delay hard-to-reverse investments, future export supply expands more slowly. In that sense, financial uncertainty translates into real trade slowdown. This mechanism helps explain why global trade growth softened during escalation phases even beyond the direct tariff-affected product lines. It also explains why trade-war effects are persistent: once investment plans are delayed or redirected, trade patterns shift for years, not months (Zeng & Liang, 2022).

Supply chains became the central battlefield where trade and finance intersected. Before 2018, global value chains were optimized for efficiency, and companies relied heavily on just-in-time logistics. The trade war encouraged a shift toward resilience: firms increased inventories, reduced single-country sourcing, and sought politically safer suppliers. These resilience strategies are financially expensive because they tie up liquidity, increase warehousing and transport costs, and limit the ability to exploit ultra-low-cost hubs. Yet they became rational under persistent policy risk. The outcome is a global tendency toward "thicker" supply chains—less lean, more redundant, more regionally clustered. Over time, this reduces the speed and scale of previous globalization gains, raising a real possibility that global trade will grow more slowly relative to world GDP than it did in the high-globalization

decades (Podzigun, 2023).

Commodity markets were another transmission belt. The trade war reshaped agricultural and raw-material flows rapidly because substitution is easier in these sectors. China's tariffs on US soy products redirected demand toward Brazil and other exporters, pushing up their prices and export revenues while depressing US farm incomes. Similar shifts appeared in meat and grains. Industrial commodities experienced a different pattern: uncertainty about manufacturing demand and future investment cycles produced higher volatility in metals, energy inputs, and some chemicals (Crowley, 2019). These swings affected fiscal and external balances of commodity-exporting economies, reinforcing the financial spillover channel described earlier. Commodity markets became more politically sensitive, reflecting the probability of continuing rerouting rather than only cyclical demand.

The conflict also accelerated technological and industrial bifurcation, a dynamic that affects finance and trade simultaneously. Restrictions on high-end semiconductors, advanced manufacturing equipment, and strategic clean-energy goods signaled that trade war escalation was no longer about price competitiveness alone, but about controlling future growth sectors. As a consequence, global companies began to design parallel production and standards paths for different geopolitical zones. This induced a new split in investment allocation: firms increased R&D and capital spending for "dual-market" strategies, while governments expanded industrial subsidies to secure domestic capacity in critical industries. Financially, this widened the role of state-directed capital and elevated risk premiums for firms operating across both zones. The technological split therefore introduced a new structural driver of investment fragmentation beyond tariffs and helped lock in the long-term nature of the rivalry (Bown, 2019).

Global banking and corporate finance adjusted as well. Firms exposed to tariff risk needed more working capital to buffer supply shocks and manage inventory expansion, and banks had to reassess credit risk for trade-dependent borrowers. Export-oriented small and medium firms, often with thinner liquidity cushions, faced higher vulnerability, especially in emerging markets. In addition, the war increased

the use of hedging instruments - FX hedges, commodity hedges, and supply contracts—as firms tried to insulate margins from policy shocks. This is another sign of financialization of trade risk: geopolitical exposure started to be treated as a standard corporate-finance variable, reshaping treasury strategies and credit conditions. Over time, this tends to widen the cost gap between firms that can hedge and diversify and those that cannot, shifting competitive structure within industries.

The global distribution of winners and losers became more asymmetric. Economies able to absorb diverted trade and investment benefited in selected sectors, while economies tightly integrated into China-centered or US-centered value chains but lacking diversification capacity suffered from intermediate-goods contractions and weaker final demand. Many ASEAN states gained manufacturing inflows, but others faced losses through reduced component demand. Europe benefited in niche substitution categories but remained exposed to demand shocks and governance fragmentation. Latin America gained agricultural opportunities but faced limits in industrial substitution. Africa experienced mostly negative spillovers through weak demand and commodity volatility. The key global tendency is therefore differentiation: the world economy no longer moves as one globalization machine, but in segmented trajectories shaped by supply-chain position and geopolitical alignment (Siripurapu & Berman, 2024).

Finally, the trade war reshaped global investment sentiment and long-range expectations about globalization’s future. International organizations repeatedly highlighted that trade-policy uncertainty lowers medium-term productivity and growth. Markets internalized this message: risk premiums stayed higher than pre-war baselines even after episodic truces, indicating that investors believe fragmentation is structural. This expectation is self-reinforcing. When markets treat fragmentation as persistent, firms invest accordingly; when firms invest accordingly, trade patterns fragment further; and that further fragmentation confirms market beliefs. Thus, one of the deepest effects of the China–US trade war is the creation of a new equilibrium in which financial markets, capital flows, and trade dynamics all incorporate geopolitical rivalry as a permanent condition rather than a temporary deviation.

In summary, the China–US trade war has influenced global financial markets, investment flows, and trade dynamics through tightly linked mechanisms. It increased volatility and risk premiums across equities, currencies, and debt markets; redirected FDI and portfolio flows toward alternative hubs; restructured global value chains toward redundancy and regional clustering; and accelerated technological bifurcation that reshapes long-term profitability and investment orientation (Jaravel & Sager, 2019). These effects have not produced a collapse of globalization, but they have produced a slower, more fragmented form of globalization in which resilience and strategic alignment matter as much as cost efficiency. This transformed environment is the basis for understanding why multilateral institutions have shifted from classic dispute arbitration toward broader financial risk management and governance adaptation, which is addressed in the next subsection.

2.2 International institutional and multilateral financial responses to the conflict

The China–US trade war has confronted international institutions with a type of challenge that is simultaneously legal, financial, and geopolitical. Unlike classic disputes where trade frictions remain sector-specific and are processed through predictable multilateral procedures, the confrontation between the two largest economies has generated repeated global risk shocks, investment disruptions, and strategic fragmentation. This has forced multilateral institutions to operate in a dual role. First, they act as guardians of the rules-based trading system, attempting to keep disputes within established legal frameworks. Second, they function as macro-financial stabilizers, issuing warnings, adjusting global forecasts, and designing stop-gap governance tools to reduce spillovers into financial markets and emerging economies (USA-China Business Council, 2023). The institutional response therefore cannot be evaluated only by whether it ended tariffs; its effectiveness must be assessed through its contribution to limiting volatility, preserving predictable channels for trade and capital, and adapting global governance to a world where economic conflicts increasingly overlap with security competition.

A central institutional pillar in the conflict has been the World Trade Organization, whose dispute settlement system was explicitly designed to prevent unilateral retaliation. The Dispute Settlement Understanding obliges members to address alleged violations through consultations, panels, and appeals rather than through immediate self-judged countermeasures. In financial terms this architecture matters because it anchors expectations: when markets trust that disputes will be handled through stable legal procedures, the perceived probability of sudden escalation is lower. The China–US case, however, demonstrated the limits of this anchor during strategic rivalry. Both Washington and Beijing brought claims to the WTO, yet implemented tariffs and restrictions before rulings were delivered and expanded retaliation without waiting for final decisions. This deviation from multilateral legal timing did not merely weaken institutional credibility; it translated into a persistent uncertainty premium in global markets. Firms could not confidently forecast future tariff regimes, so they delayed capex, diversified supply bases at higher cost, and held larger liquidity buffers. Investors, in turn, built geopolitical risk into pricing across equities, currencies, and credit instruments. Thus, even when the WTO remained a formal arena for the dispute, its inability to discipline unilateral behavior reduced its capacity to stabilize expectations (Pineda, 2019).

The institutional challenge was intensified by the crisis of the WTO Appellate Body. Historically, the Appellate Body guaranteed legal finality and made dispute settlement binding in practice. As it lost operational functionality, panel outcomes became more difficult to enforce: decisions could be appealed into a void, leaving compliance uncertain. The trade war unfolded in exactly this environment, so legal procedures could not provide a credible endpoint to escalation. For global markets, this meant that litigation did not signal resolution. Even after filings and panel reports, investors discounted the likelihood that tariffs would be reversed through multilateral law (Sabanoglu, 2024). Such institutional fragility widened the distance between legal norms and real policy behavior, reinforcing the perception that power politics had returned to global trade governance. This is why the Appellate Body crisis is not an abstract institutional detail; it has direct financial relevance because it

sustains volatility and elevates long-term risk premiums.

In response, WTO members initiated reform tracks aimed at restoring enforceability and modernizing rules. These efforts have focused on two clusters. The first cluster is procedural: restoring a functioning appeal stage, accelerating panel timelines, strengthening compliance incentives, and reaffirming Article 23 discipline against unilateral retaliation. The second cluster is substantive: updating rules for domains that the China–US conflict exposed as structurally controversial, including industrial subsidies, transparency of state support, the competitive role of state-owned enterprises, and trade in high-technology and digital products. The reform agenda is slow and politically difficult, yet its financial purpose is clear. A credible dispute settlement system reduces policy unpredictability, lowers geopolitical risk pricing, and makes long-term investment in transborder value chains rational again. Even incomplete reform therefore acts as a stabilizing signal for markets, indicating that multilateral actors recognize the governance gaps revealed by the war.

Because universal reform could not quickly restore enforcement, multilateral governance adapted through interim and plurilateral solutions. A significant development has been the formation of arbitration-based appeal alternatives among coalitions of willing members. These arrangements do not include the United States or China, so they cannot directly settle their rivalry. Nevertheless, they perform a stabilization function for participating economies: by preserving binding review, they help maintain predictable trade and investment conditions inside their corridor. Financially, this limits contagion, because firms and investors operating within those coalitions face lower legal uncertainty than they would under a fully paralyzed system. At the same time, these work-arounds reveal a shift toward layered multilateralism: universal rules still exist, but enforceability becomes club-based. This helps some actors hedge risk, yet it also reinforces global segmentation, which is itself a long-run cost of the trade war (Miller, 2023).

Table 2.2

Main WTO reform directions triggered by the China–US trade war and their expected financial-stability relevance (procedural restoration vs. rule modernization)

Reform area	Problem highlighted by the China–US trade war	Reform track (procedural restoration vs. rule modernization)	Expected relevance for global financial stability
Dispute Settlement Body (Appellate Body crisis)	Bypass of WTO procedures, unilateral tariffs and retaliation, legal vacuum for large-power conflicts	Procedural restoration – unblocking appointments, clarifying mandate and timelines of panels and appeals	More predictable dispute resolution reduces uncertainty premia, supports investor confidence and smoother capital flows
Transparency and notifications	Incomplete or delayed reporting of subsidies, trade measures, and industrial policies	Procedural restoration + rule clarification – stricter notification disciplines and enforcement incentives	Better information lowers mispricing of risk in financial markets and supports more accurate country and sector risk assessments
Subsidies and state-owned enterprises (SOEs)	Concerns about non-market behavior, overcapacity, and hidden state support, especially in strategic sectors	Rule modernization – updated subsidy rules, clearer disciplines for SOEs, new criteria for "market distortion"	Limits "subsidy races", reduces overcapacity cycles and associated debt risks in exposed sectors (steel, shipbuilding, EVs, etc.)
Security exceptions and unilateral tariffs	Broad use of "national security" justifications to impose tariffs outside WTO framework	Rule modernization – narrower, more precise definition and review of security exceptions	Reduces risk of sudden tariff shocks that trigger market volatility, portfolio reallocation and exchange-rate swings
Special and differential treatment (SDT)	Disputes over which countries may claim "developing" status and related flexibilities	Rule modernization – more graduated, criteria-based SDT linked to income and integration levels	Clearer status reduces political frictions that can spill into markets and helps avoid escalation that undermines trade and financial stability
Digital trade, data and e-commerce	Lack of comprehensive multilateral rules on data flows, digital services and platform taxation	Rule modernization (new rules) – plurilateral or multilateral disciplines on digital trade and data governance	Predictable digital-trade rules support cross-border services, fintech, and digital investment, lowering regulatory and legal risks
Plurilateral initiatives and flexible coalitions	Paralysis in consensus-based negotiations on new topics	Procedural and rule innovation – structured plurilateral deals open to all members on equal terms	Allows faster rule adaptation, reducing the gap between market practice and WTO law, which in turn limits regulatory uncertainty for global investors

Source: structured by author based on (IMF, 2025);

Parallel to legal governance, global financial institutions have responded through macro-financial surveillance and expectation management. The International Monetary Fund has treated the trade war as a systemic stability risk rather than a narrow trade event.

IMF analysis consistently emphasized that tariffs generate both a direct loss channel and an uncertainty channel. The direct channel raises trade costs and reallocates demand away from efficient suppliers. The uncertainty channel depresses investment by raising the option value of waiting, disrupts capital planning, and increases global risk aversion. In practice, IMF forecasts were revised downward during escalation episodes, and scenario models highlighted that prolonged tariff and technology restrictions could permanently lower the level of global GDP. This type of communication is a multilateral financial tool in itself. It does not compel policy change, but it raises reputational and strategic costs of escalation by publicly quantifying global losses and linking them to market instability. On this basis, Figure 2.3 presents two synthetic scenarios: a “limited escalation” path, loosely aligned with IMF-type assumptions, and a “prolonged escalation” path, broadly reflecting OECD-type modeling of sustained trade and financial fragmentation.

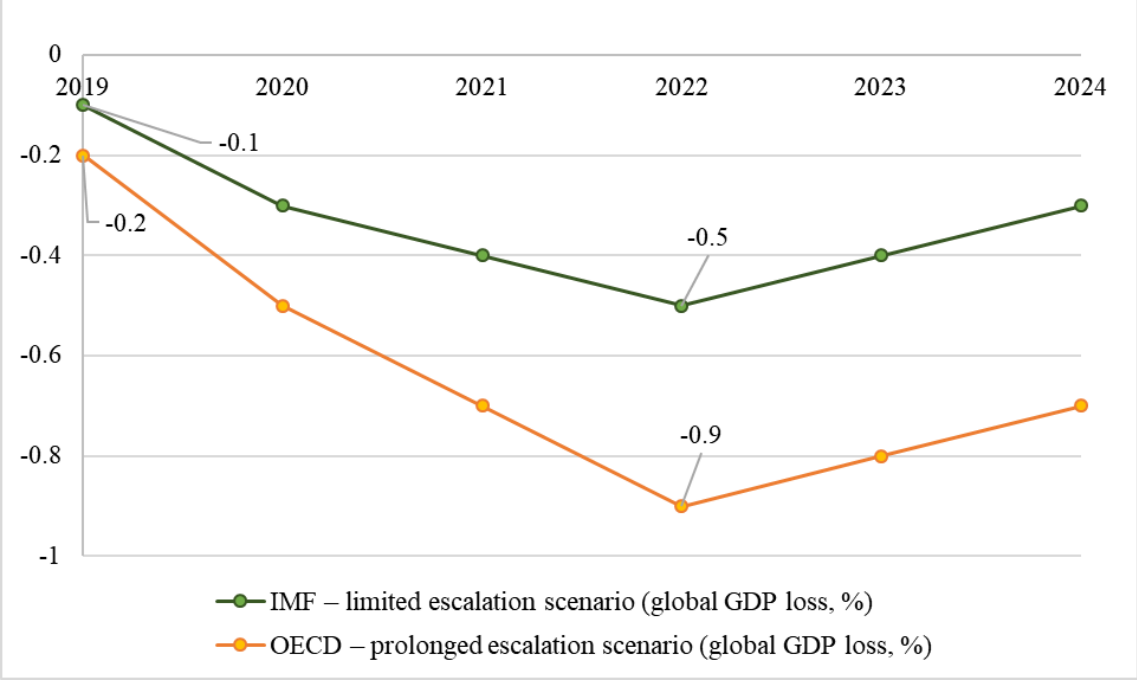

Figure 2.3. IMF and OECD global growth-loss scenarios under alternative escalation paths of the China–US trade war

Source: structured by author based on (IMF & OECD, 2025);

Figure 2.3 shows that even under a limited escalation scenario the China–US trade war generates a non-trivial global growth loss, reaching around 0.5% of world GDP at the peak of uncertainty in 2022 and gradually easing thereafter as markets partially adjust. Under a prolonged escalation scenario, which assumes more persistent tariffs, deeper technology restrictions, and stronger financial fragmentation, the cumulative loss is almost twice as large, approaching 0.9% of world GDP at the height of tensions. In both cases the impact profile is hump-shaped: losses increase with every new escalation round, stabilize once agents adjust their portfolios and supply chains, and decline only slowly as expectations improve. From a financial-stability perspective, these scenarios underline that the intensity and duration of the China–US conflict matter as much as the initial shock, since prolonged uncertainty depresses investment, raises global risk premia, and makes a return to pre-war growth trajectories increasingly unlikely.

The IMF also focused heavily on spillovers to emerging markets. Escalation between China and the US repeatedly produced global risk-off cycles, increasing demand for safe-haven assets and tightening global financial conditions. This triggered portfolio outflows from many developing economies, widening sovereign spreads and pressuring currencies even where domestic fundamentals were stable. IMF surveillance therefore encouraged policy buffers: flexible exchange rates to absorb shocks, adequate foreign-exchange reserves to prevent disorderly depreciation, prudent fiscal policy to sustain credibility, and tighter monitoring of corporate foreign-currency exposures. The objective was to prevent trade-war volatility from mutating into a broad financial crisis via periphery contagion. In other words, multilateral finance institutions repositioned their role from arbitration to systemic risk containment (Peterson Institute for International Economics, 2020).

The World Bank and UNCTAD have complemented IMF warnings with a development-oriented financial narrative. Their assessments argue that global uncertainty and fragmentation harm long-term investment, slow industrial upgrading, and weaken poverty-reduction progress in lower-income economies. This framing

matters because it transforms the trade war from a bilateral competition into a collective-action problem: the protagonists may treat escalation as strategic, but the global financial and welfare costs are distributed widely. These institutions have therefore advocated export diversification, infrastructure for new corridors, and resilience-oriented development finance, indirectly reshaping how capital is allocated in the aftermath of trade diversion.

OECD analytical work has pushed the same stabilization logic from a structural perspective. Its models highlight that strategic reshoring, subsidy escalation, and technology fragmentation reduce global productivity by duplicating supply chains and limiting cross-border diffusion of innovation. This argument has deep financial implications (Wilson, 2019). Productivity expectations shape the global return to capital; when institutions signal that fragmentation lowers potential output, investors adjust long-term risk pricing upward and become more cautious about cross-border projects. OECD warnings therefore act as a multilateral brake on the normalization of protectionism by showing that resilience policies, if excessive, generate chronic inefficiency and weaker medium-term growth.

Political-coordination institutions have added another layer of response. The G20 has served as a recurring crisis-management arena where leaders attempted to reduce market panic through dialogue. Temporary ceasefires and reaffirmations of a rules-based order at key summits functioned as short-term volatility dampeners. Markets reacted to those moments because they reduced tail-risk expectations. But the G20's influence is limited by its non-binding nature. Monitoring data show that G20 members themselves increasingly rely on industrial policy, subsidies, and strategic trade restrictions, reflecting the global shift toward securitized economic policy. Thus, G20 interventions can calm markets episodically, yet they do not remove the structural geopolitical risk premium that the trade war created.

Regionally, multilateral responses have often been more operational. The European Union combined WTO litigation with proportional countermeasures, while simultaneously strengthening investment screening and strategic autonomy policies. In Asia, mega-regional frameworks and production-network agreements were

promoted as buffers to absorb trade diversion and stabilize investment flows. These arrangements help preserve predictable rules for redirected trade and capital in a fractured environment. Financially, this creates “safe corridors” for investment, but it also means that global integration becomes selective, increasingly organized around regional blocs (Hass & Denmark, 2019).

Finally, the institutional response has widened into technology-linked financial governance. Since the conflict expanded into export controls on semiconductors, AI hardware, clean-energy supply chains, and data security, multilateral forums have engaged in partial coordination on standards, transparency of controls, and principles for security-related restrictions. Full convergence is unlikely, yet even limited coordination reduces extreme regulatory uncertainty. Standards define future market access and profitability; without some multilateral signaling, firms would face even higher capital costs and investors would demand larger returns for geopolitical exposure. Therefore, standards dialogue has become an indirect multilateral financial response to fragmentation.

Overall, international institutions have responded to the China–US trade war through layered mechanisms rather than decisive settlement. The WTO has remained the formal legal arena and a catalyst for reform, but enforcement weaknesses and great-power unilateralism have reduced its stabilizing capacity. The IMF, World Bank, UNCTAD, and OECD have reframed the conflict as a global macro-financial risk, quantified losses, and promoted defensive buffers to prevent contagion (Stanford Center on China's Economy and Institutions, 2023). The G20 has functioned as a political volatility-management forum with only temporary restraining power. Regional agreements and screening regimes have created practical corridors for redirected trade and investment, while also reinforcing bloc-based fragmentation. Taken together, these responses show that multilateralism has not eliminated the structural rivalry, but it has limited part of its financial contagion and is gradually adapting global governance tools to an era in which trade conflicts operate as financial shocks and strategic competitions simultaneously.

Conclusion to the section 2

To conclude, the China–US trade war generated wide-reaching spillovers across multiple regions, compelling many economies to rethink production networks, adjust trade routes, and reduce excessive dependence on either of the two global leaders. The conflict accelerated supply-chain diversification and encouraged new patterns of regional and third-country trade, with countries seeking more resilient and politically safer commercial ties. In response to these systemic risks, key international organizations have consistently promoted diplomatic de-escalation and the negotiation of updated trade agreements as necessary conditions for stabilizing markets and supporting sustainable global growth. At the same time, their initiatives underline the urgency of modernizing multilateral trade rules and dispute-settlement procedures so that future confrontations do not again destabilize the world economy on a comparable scale

SECTION 3. FUTURE SCENARIOS FOR THE CHINA–US ECONOMIC AND FINANCIAL RIVALRY

3.1 Forecast of the long-term financial and economic implications of the conflict

By the mid-2020s it has become clear that the China–US trade war is no longer a short-term tariff dispute that can be "fixed" by one negotiation round. It has transformed into a durable geoeconomic rivalry where trade measures, technology controls, industrial policy, and financial security are interlocked. In earlier stages, the confrontation looked like a classic customs conflict: one side imposed duties, the other answered, and both expected that bargaining would eventually restore balance. Today the logic is different. Both economies treat the relationship not only as a commercial competition, but as a test of long-term strategic position in the world economy. This shift matters for the future: when disputes become strategic, they do not end quickly, because compromise is seen as vulnerability. Therefore, the most realistic baseline assumption is a prolonged period of managed confrontation, where escalation and partial stabilisation alternate, but the rivalry remains structurally embedded in policy.

The future of the trade war is driven by three deep forces. The first force is technological competition. The centre of gravity of the conflict has moved toward frontier sectors that determine future productivity: semiconductors, artificial intelligence, clean-energy supply chains, advanced manufacturing equipment, critical minerals, biotechnology, and digital platforms. In these areas, both the United States and China believe that leadership translates into security, influence, and long-run growth (Moody's Analytics, 2019). As soon as trade governance intersects with technology sovereignty, tariffs stop being only price tools and become instruments of industrial strategy. This makes any return to pre-2018 openness unlikely, because neither side wants to restore full access in sectors they consider decisive for power. The second force is domestic political economy. In the US, public and congressional attitudes have increasingly converged on the view that China's state-directed model

creates unfair competitive pressure, and that supply-chain dependence is a national risk. In China, leadership legitimacy depends on sustained growth, technological upgrading, and resistance to external pressure. These domestic realities reward toughness over conciliation. The third force is systemic fragmentation of globalization. Since the war began, firms and states everywhere learned to price geopolitical risk into supply chains and investment decisions. The more capital relocates into alternative corridors, the harder it becomes to rebuild the old integrated structure even if tariffs soften. Future trade patterns will therefore be "path dependent": today's adjustments lock in tomorrow's geography (Luo et al., 2023).

From the United States' perspective, the conflict is already institutionalized rather than episodic. Trade policy has shifted from deficit-correction logic toward security-industrial logic. Instead of pursuing broad universal liberalization, American strategy is increasingly selective: protection and incentives concentrate on strategic manufacturing, advanced technology, and the clean-energy transition. The state assumes a more explicit role as an investor and coordinator, using tariffs as a shield while industrial programs stimulate domestic capacity. This approach reflects a long-term bet that the US must rebuild core industrial ecosystems at home, not only to defend jobs but to avoid future vulnerability in sensitive supply lines. Even if Washington uses dialogue to prevent uncontrolled escalation, the policy direction suggests that high barriers will remain in the most valuable sectors. In other words, stabilization is possible, but full reversal is not.

At the same time, US strategy is constrained by its own macroeconomic trade-offs. Tariffs and friend-shoring support domestic industry, yet they also raise production costs, especially in sectors where intermediate components are still globally sourced. If these costs accumulate too fast, they can aggravate inflation pressures and reduce consumer welfare. For policymakers, this creates a balancing problem: they want to reduce dependence on China without creating a doméstic price shock large enough to undermine political support. Therefore, in the medium term the US is likely to pursue a pattern of "targeted hardening with selective exemptions." Where supply is easily substitutable or politically sensitive, tariffs can be raised

aggressively; where supply is scarce or inflation-sensitive, restrictions will be narrower or phased. The future of the war from the US side thus looks like a technologically focused containment model rather than an across-the-board commercial blockade (BBC, 2021).

China's future strategy is equally structural. Publicly, Beijing insists that the dispute is a product of American protectionism and geopolitical fear. Practically, China's response combines calibrated retaliation with accelerated self-reliance. Beijing has little incentive to accept conditions that would openly reduce control over industrial policy, because industrial upgrading is central to its long-term development narrative. Instead, China treats pressure as a signal to deepen domestic substitution in key sectors and diversify export markets. The logic is that if the US becomes an unreliable market and supplier, China must secure alternative routes for demand and technology. As a result, even if a tariff truce occurs, Beijing will likely continue investing heavily in indigenous innovation, critical mineral processing, advanced manufacturing capacity, and domestic supply of high-tech components. In this sense, the trade war has pushed China closer to a long-term "internalization of the value chain" strategy (USCBC, 2024).

Retaliation will remain part of China's toolkit, but the intensity of retaliation is likely to stay calibrated. Beijing must manage two constraints. First, its export dependence, especially in high-employment manufacturing, makes a full trade rupture economically costly. Second, Chinese authorities also want to avoid a shock that triggers massive foreign capital flight or accelerates a complete investor decoupling. Therefore, China's likely future approach is selective pressure on politically sensitive US industries and symbolic high-profile measures, rather than maximal escalation that would harm China's own macro stability. In previous cycles, China tended to target goods where alternative suppliers are available and domestic costs are limited, while avoiding areas where dependence is still high. This pattern is likely to continue, meaning that retaliation will be strategic and asymmetric, designed to maintain leverage rather than to destroy trade entirely (Wang, 2024).

A critical feature of the future war is that both sides are simultaneously

competing and mutually constrained by interdependence. The US cannot fully replace China in many consumer and intermediate categories without major cost increases. China cannot rapidly substitute the US and allied technology base in the highest-end segments without sacrificing efficiency. This creates an environment where "complete decoupling" is politically imaginable but economically self-damaging. As a result, the next decade will probably show partial decoupling in strategic sectors together with continued high volumes of commerce in non-strategic goods. The relationship becomes layered: open in low-sensitivity trade, restrictive in high-sensitivity trade. This layered outcome is one of the main perspectives of the conflict.

In order to link the empirical analysis with the forward-looking scenarios, it is useful to summarize how the China–US trade war may evolve over the medium term. Building on the previous discussion of tariff dynamics, technology controls, and financial fragmentation, three stylized paths can be distinguished: a baseline of "managed rivalry", a more disruptive trajectory of "accelerated decoupling", and a more optimistic scenario of "limited accommodation". Each path combines assumptions about future tariff policy, technology restrictions, capital-flow measures, and the degree of institutional cooperation. Figure 3.1 presents an illustrative index of trade–technology restriction intensity under these three scenarios through 2030.

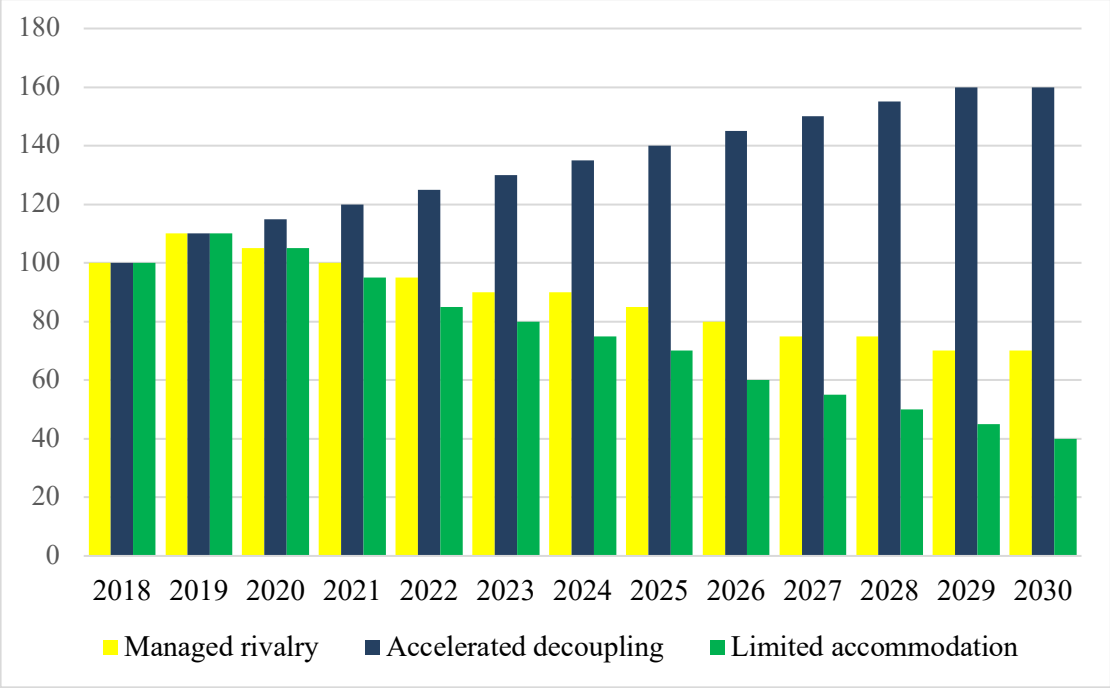

Figure 3.1. Medium-term trajectory scenarios of the China–US trade war

through 2030: managed rivalry, accelerated decoupling, limited accommodation

Source: structured by author;

Figure 3.1 shows that under the managed rivalry scenario the overall level of restrictions remains elevated relative to the pre-2018 environment, but does not escalate indefinitely. After the peak escalation phase in 2019–2020, the index gradually declines and then stabilizes around 70–90 points, reflecting a combination of persistent tariffs, selective technology controls and partial adaptation by firms and investors. This path implies structurally higher transaction costs and risk premia, but avoids a complete breakdown of trade and financial linkages.

Under accelerated decoupling, the restriction index continues to rise throughout the 2020s, reaching around 160 points by 2030. This trajectory assumes additional sanctions in strategic sectors, broader outbound-investment screening, tighter controls on technology and data, and deeper fragmentation of payment and settlement systems. In financial terms, such a scenario is associated with lower cross-border capital mobility, more volatile risk premia and a sharper reorientation of global value chains away from China–US interdependence.

The limited accommodation scenario, by contrast, illustrates a gradual easing of tensions. The index peaks in the early years of the conflict and then declines steadily as both sides selectively reduce tariffs, clarify technology-related rules, and restore a minimal level of institutional dialogue. By 2030 restriction intensity falls to around 40 points, which still implies more frictions than in the pre-war period but is compatible with a partial normalization of trade and financial flows. From the perspective of global financial stability, the comparison of these three paths underscores that the medium-term trajectory of the China–US relationship will be a key determinant of risk premia, investment planning horizons and the stability of cross-border capital flows in the coming decade.

In a managed rivalry scenario, which is currently the most consistent with observed dynamics, tariffs remain high in strategic industries, technology controls persist, and both countries keep funding industrial autonomy. However, escalation is moderated by periodic negotiation windows and by mutual recognition that

uncontrolled shocks would hurt domestic stability. Under managed rivalry, bilateral trade does not collapse; it stabilizes at a lower plateau than the pre-2018 peak, while third-country corridors absorb a growing share of redirected flows. Financial volatility remains episodic: markets react to escalation headlines but recover on truce signals. Global value chains in electronics, machinery, and clean energy become more regionally clustered, but still interconnected through intermediaries. This scenario produces a "slow fragmentation" world economy: less efficient than before, but not abruptly divided (Douglas, 2024).

In an accelerated decoupling scenario, a major political or security shock pushes both sides into broader restrictions. This could be driven by a sharp technology embargo cycle, a crisis in a security hotspot, or a shift toward universal tariffs. Under this path, trade volumes fall substantially, high-tech supply chains split into parallel systems, and multinational firms accelerate exit or duplication strategies. The economic result would be large global rerouting of FDI and manufacturing, higher global production costs, and persistent inflationary pressures in some regions. Financially, accelerated decoupling carries the highest volatility risk: risk premiums rise globally, safe-haven currencies strengthen, and emerging markets face outflow stress because global investors reprice geopolitical risk sharply. The world moves closer to bloc-based globalization with high friction at inter-bloc boundaries (Goujon & Vest, 2024).

In a limited accommodation scenario, both governments keep strategic controls but agree to reduce tariffs in selected consumer or climate-related sectors to stabilize growth and lower domestic costs. This path would require each side to see benefits in predictable partial peace, such as reduced inflation risk or improved business confidence. Under limited accommodation, bilateral trade rebounds somewhat, but not to old highs, because firms have already relocated marginal capacity. Technology and security restrictions remain the "red lines," so the rivalry continues in high value segments, while non-strategic trade becomes freer. The financial effect is lower day-to-day volatility and improved investment planning, but fragmentation still remains the long-term background condition (World Union of Arab Bankers, 2024).

These scenarios show why the war is expected to persist. Each step taken by one side to reduce vulnerability pushes the other side to defend its position. For example, when the US restricts high-end chips or subsidizes domestic clean-energy manufacturing, China interprets this as containment and accelerates substitution efforts. When China subsidizes overcapacity or prioritizes technological upgrading, the US interprets this as unfair strategic expansion and hardens controls. This mutual reinforcement creates a feedback loop where rivalry regenerates itself even after a formal settlement. Therefore, the likely future is a contested equilibrium rather than a resolved conflict (CESifo Forum, 2019).

Table 3.1

Historical and forecasted macroeconomic indicators for China and the USA under baseline managed rivalry assumptions (2018–2027)

Year	China GDP growth, %	USA GDP growth, %	Bilateral trade volume, USD billion	US trade balance with China, USD billion	China inflation, %	USA inflation, %
2018	6.75	2.9	658.79	-418.23	2.07	2.44
2019	5.95	2.47	555.59	-342.63	2.9	1.81
2020	2.24	-2.21	557.13	-307.97	2.42	1.23
2021	8.45	5.8	655.72	-352.85	0.98	4.7
2022	2.99	1.94	690.32	-382.3	1.97	8
2023	5.24	2.53	575.04	-279.42	0.23	3.4
2024	5	2.73	623.83	-330	0.97	3.3
2025	4.39	2.85	626.24	-299.52	0.35	5.34
2026*	4.17	2.98	628.64	-288.2	0.03	5.79
2027*	3.96	3.11	631.04	-276.89	-0.3	6.24

Source: structured by author based on (Mazzocco, 2025);

The macroeconomic trajectories of both countries will shape how long they can sustain confrontation. China faces a medium-term slowdown pressure due to domestic debt constraints, demographic shifts, real-estate adjustment, and weaker external demand in tariff-sensitive industries. These challenges make long-run stability a priority, which in turn encourages Beijing to avoid wild escalation while

still pursuing self-reliance. The US, by contrast, benefits from diversified import sources and stronger domestic demand, yet it faces risks of tariff-driven cost inflation and industrial subsidy burdens. If protection becomes too expansive, it may increase fiscal pressure or inflation, pushing the US to prioritize selective containment rather than blanket restriction. Thus, each side's internal macro trade-offs promote continuation of rivalry but also encourage periodic stabilization to avoid domestic damage (García-Herrero, 2018).

Table 3.2

Scenario-based projections for 2025–2026 under stable tariffs versus gradual tariff reduction and their impact on trade volume and growth

Year	2025	2026
Trade volume, Scenario 1* (USD billion)	600	605
Trade volume, Scenario 2** (USD billion)	620	630
China GDP growth, Scenario 1 (%)	5.2	5.3
China GDP growth, Scenario 2 (%)	5.5	5.6
US trade balance with China, Scenario 1 (USD billion)	-300	-295
US trade balance with China, Scenario 2 (USD billion)	-280	-270

*Scenario 1 – stable / relatively high tariff levels, limited de-escalation.

**Scenario 2 – gradual tariff reduction, partial normalization of trade relations.

Source: structured by author;

Another decisive perspective is the transformation of the conflict into a technology-standards war. Trade measures now overlap with rules on data, AI safety, cybersecurity, supply-chain traceability, and export licensing of dual-use goods. Future disputes will increasingly be framed around standards rather than tariffs, because standards determine who controls the architecture of future industries. If standards diverge, firms will need parallel product lines, parallel compliance systems, and parallel innovation ecosystems. That raises costs and slows diffusion of innovation globally. The US and its allies are pushing toward "trusted" standards networks; China is pushing toward self-defined ecosystems linked to its industrial upgrading vision. The deeper this standards split goes, the harder any tariff compromise becomes decisive (Bellora, 2019).

A further dimension is the financialization of trade risk. Since 2018 global

firms have started treating geopolitical tariffs and export controls as permanent risks, similar to exchange-rate or credit risks. This has changed corporate behavior: inventories are higher, hedging is more common, supplier networks are more diversified, and capital spending is more regionally distributed. Financial markets internalize this shift by pricing a higher risk premium for firms deeply dependent on a single rival corridor. The longer the war persists, the more this financial adjustment becomes structural. That is why even a political truce would not restore full integration quickly: finance has already adapted to fragmentation (The Confidential, 2019).

The future also depends on the multilateral environment. The WTO dispute system remains weakened and is not yet a fully credible constraint on great-power unilateralism. Without a strong multilateral enforcement anchor, both sides will continue to view unilateral tariffs and controls as legitimate tools. Regional and plurilateral agreements will therefore play a bigger role as stabilizing corridors for redirected trade and investment. This trend supports the managed rivalry scenario, where global trade continues but increasingly through regional blocks and trusted-partner routes (Ruiz, 2019).

Finally, the trade war's persistence will shape the world economy in ways that feed back on the protagonists. As more countries diversify away from reliance on the US–China corridor, both leaders lose some leverage over the global system they previously dominated. Third-country supply hubs rise, regional production corridors thicken, and new trade alliances form to hedge geopolitical shocks. Over time, this reduces the ability of either Washington or Beijing to control global outcomes through bilateral measures alone. In that sense, the longer the war continues, the more multipolar and region-based the world economy becomes. That multipolarity may eventually push both sides toward selective accommodation, but it will not erase structural rivalry. It will only reshape the playing field on which rivalry happens (Goulard, 2020).

To sum up, the perspectives of the China–US trade war point toward durability, layering, and gradual restructuring rather than rapid resolution. The US is

institutionalizing targeted protection and domestic industrial rebuilding; China is institutionalizing self-reliance, diversified markets, and calibrated retaliation. Interdependence prevents full separation, but strategic competition prevents a full return to openness. The most plausible path is a prolonged managed rivalry where tariffs and technology controls remain central, episodes of stabilization occur when domestic costs rise, and global trade and investment progressively reorganize into resilient, regionally clustered networks. The conflict is therefore likely to remain a defining feature of global economic relations throughout the next decade, shaping both the bilateral corridor and the wider architecture of world trade and finance (Plummer, 2019).

3.2 Policy recommendations, regulatory tools, and strategic approaches to resolving financial tensions

The analysis of the current stage of the China–US trade war confirms that the confrontation has already exceeded the boundaries of a classical tariff dispute and has become a long-term system of regulatory and strategic competition. Therefore, the logic of "conflict solution" cannot be reduced to the expectation of one peace agreement or a rapid return to pre-2018 liberal trade norms. In modern conditions, the settlement of such a trade conflict is better interpreted as multi-level management of rivalry, where the objective is to limit macro-financial damage, prevent uncontrollable escalation, and construct predictable rules of engagement in those sectors that are strategically sensitive. The policy toolkit that shapes this management includes national trade regulations, industrial and innovation strategies, financial and investment screening instruments, and multilateral diplomacy. Each of these dimensions must be evaluated not only as a political reaction but as a factor influencing financial stability, investment behavior, and future trade architecture (Eurostat, 2024).

At the bilateral level, the first group of regulatory strategies refers to tariff policy itself. Over the war years both sides used tariffs as a signal of resolve and as

an instrument of domestic protection. Yet the evidence of the conflict suggests that tariffs have diminishing returns once they become permanent. Their short-term effect may include partial reallocation of trade flows and protection of specific industries, but the longer they stay in place, the more they act as an inflationary and efficiency-reducing tax on domestic consumers and firms. This is why an effective settlement strategy requires a phased and selective approach to tariff reduction rather than a sudden rollback or a new uniform increase. Gradual easing in non-strategic consumer goods, intermediate inputs with low security relevance, and sectors where both sides still benefit strongly from interdependence can lower the uncertainty premium for investors and reduce supply-chain costs without forcing either side to compromise on strategic positions. In contrast, maintaining higher tariffs for security-linked industries (frontier semiconductors, dual-use equipment, critical minerals, advanced digital infrastructure) may remain politically unavoidable. The core settlement logic is therefore asymmetry: reduce barriers where cooperation yields clear welfare gains, but stabilize boundaries where rivalry is rooted in security concerns. This approach reshapes the conflict from a chaotic spiral into a predictable corridor of managed competition (Sabanoglu, 2024).

A second bilateral strategy is institutionalized negotiation sequencing. Previous rounds of talks showed that negotiations fail when they attempt to solve every structural disagreement simultaneously. The dispute includes issues as diverse as subsidy discipline, state-owned enterprises, data and cybersecurity rules, technology transfer, and market access conditions. When all these elements are placed on the table at once, each side interprets compromise as systemic surrender. In practice, the conflict needs a layered negotiation design: first, stabilizing agreements on narrow trade-friction areas (tariff freezes, sectoral exemptions, technical working groups); second, enforceable instruments to address specific structural controversies (transparency of subsidies, sector-specific IP commitments, licensing rules for technology exchange); and only after that, a broader “framework understanding” that redefines the accepted balance between state industrial policy and market competition. A staged format does not remove rivalry, but it makes de-escalation

realistic because it creates intermediate achievements that can be politically defended inside both countries. It also reduces the probability of sudden policy shocks, which is crucial for global financial stability.

A third bilateral strategy concerns the rules of retaliation. The China–US dispute shows that retaliation becomes most destabilizing when it is unpredictable and symbolically maximal. A workable settlement path requires defining de-escalation principles that limit retaliation to proportionate and transparent measures, avoiding surprise bans that shock financial markets. Even without full trust, both sides can recognize mutual interest in reducing volatility. An example of this logic is the preference for legalistic and pre-announced countermeasures rather than sudden embargo-style decisions. Predictability itself is a form of settlement because in financial terms stable expectations prevent risk-off cycles, capital outflows, and sharp repricing of corporate assets. Therefore, negotiation should be oriented not only toward "who wins tariff levels," but toward "how to stabilize the rivalry's rhythm" (Sabadosa, 2024).

At the national policy level, settlement is inseparable from industrial and technological strategy. The trade war is driven by the perception that technological leadership determines future economic security. That is why both sides increasingly combine tariffs with industrial subsidies, domestic innovation programs, research financing, and supply-chain localization. Because of this structural logic, a solution cannot mean "ending industrial policy." Instead, it must mean creating rules that reduce the destructive spillovers of industrial competition. For the United States, this involves linking protection measures to domestic competitiveness targets rather than to rigid deficit reduction ambitions. The objective is to rebuild strategic ecosystems (advanced manufacturing, clean-energy hardware, semiconductor capacity) while avoiding protectionism that becomes a burden on consumers. A balanced national strategy therefore requires constant evaluation of the inflationary effect of tariffs, the fiscal cost of subsidies, and the productivity payoff from domestic re-industrialization (Rogach et al., 2021). If protection exceeds its benefit, it undermines the very competitiveness it is meant to secure. Consequently, settlement strategy for

Washington implies “disciplined protection”: tariffs and controls targeted only at sectors where national security or strategic autonomy is clearly at risk, accompanied by domestic reforms that strengthen innovation and workforce skills.

For China, the long-term settlement logic is also domestic. Beijing’s primary external vulnerability is the perception of structural imbalance caused by export-driven overcapacity and insufficient domestic consumption. Even if China insists that its trade surplus emerges from comparative advantage, the political economy of partner states interprets persistent surpluses combined with state support as distortion. This fuels coalition-based protection in the West and makes external settlement harder for China. Therefore, one of the most effective strategies for Beijing is internal rebalancing: strengthening household income confidence, expanding social safety nets, and enlarging domestic demand so that growth relies less on export oversupply (Nugroho et al., 2021). The practical effect would be twofold. Internally it would stabilize growth and reduce deflationary risk. Externally it would narrow trade gaps, weakening the political justification for permanent tariff walls. In addition, China’s innovation strategy needs to address not only the quantity of technological advancement but also transparency of state support and the credibility of intellectual property enforcement. In a world where technology is securitized, credibility becomes a strategic asset. If China demonstrates clearer boundaries between legitimate industrial upgrading and subsidy-driven dumping, it improves the chance of selective accommodation with trading partners even amid rivalry.

A separate settlement dimension is the regulation of investment and financial flows. The conflict has increasingly moved into the sphere of investment screening, outbound investment controls, and restrictions on cross-border mergers in strategic sectors. Financial strategies matter because they shape long-term supply-chain geography. When firms believe that investment corridors will remain open, they continue global integration; when they expect tightening, they relocate capital into trusted regions. Thus, settlement requires clearer, rule-based investment governance. For the US and its partners, screening should be risk-based rather than universal: focused on genuinely dual-use technologies and national infrastructure, while

preserving openness for non-critical investment that benefits productivity. For China, settlement-oriented financial policy includes improving the predictability of the regulatory environment for foreign investors and limiting informal pressure tools that raise political risk premiums. If capital markets view the corridor as excessively politicized, they demand higher returns or exit, which damages growth prospects for both sides. Therefore, stabilizing investment rules is not secondary to trade settlement; it is one of its central pillars (Hendratia et al., 2024).

The multilateral level of settlement is equally decisive. The trade war demonstrated that global trade governance is not fully equipped to discipline great-power rivalry. When dispute-settlement institutions look weak or outdated, the incentives for unilateral action grow. A realistic settlement strategy therefore includes modernization of multilateral rules, even if the protagonists themselves remain reluctant. The most urgent reform areas include subsidy discipline, transparency of state support, treatment of state-owned enterprises, digital trade and data governance, and enforceable timelines for dispute settlement. Without such reforms, any bilateral peace remains fragile because structural disagreements quickly reappear in new forms. Multilateral modernization is also financially stabilizing: when rules are credible, markets interpret conflicts as manageable rather than existential, and volatility declines. Even partial reform can lower uncertainty by clarifying what is considered legal industrial policy and what is considered distortion (Zhao, 2024).

However, universal multilateral reform is slow, so regional and plurilateral frameworks become practical settlement corridors. Third-party trade agreements and regional supply-chain alliances can absorb redirection and reduce shock transmission. For many economies, participating in regional rules that emphasize stable standards, dispute procedures, and investment predictability helps to insulate them from China–US escalation waves. Yet this also contributes to regionalization of world trade. From a settlement perspective, regional frameworks should reduce fragmentation by remaining open and compatible with global rules, rather than becoming exclusive blocs. The goal is to keep the global economy connected through overlapping corridors, not to lock the world into permanent rival camps (Coxhead, 2023).

Another crucial policy instrument is standards diplomacy in technology and climate-related manufacturing. Since the rivalry increasingly unfolds around semiconductors, electric mobility, batteries, AI, biotechnology, and digital infrastructure, the battle over standards determines future market access more than tariffs do. Settlement strategies therefore require "rules for the standards war." Even if the US and China do not fully converge, they can negotiate minimal interoperability principles, transparent certification requirements, and predictable export licensing to avoid chaotic fragmentation. Without standards dialogue, firms face parallel compliance systems and higher capital costs, which reduces productivity globally. Standards cooperation is not a sign of trust; it is a necessary risk-management tool in a high-tech rivalry environment.

Because the trade war produces spillovers to third countries and emerging markets, multilateral financial institutions also play a settlement role. Their warnings, scenario modeling, and policy surveillance reduce the probability that trade escalation transforms into a financial crisis (UNCTAD, 2021). The settlement strategy here is preventive stabilization: promoting macro buffers in emerging markets, supporting flexible exchange regimes, discouraging competitive devaluations, and maintaining liquidity frameworks to handle risk-off cycles caused by headline shocks. While institutions cannot force Washington or Beijing to stop the war, they can reduce the cost of escalation for the rest of the world and help avoid contagion. This is a financial settlement layer, even if not a political one. In order to avoid a purely ad hoc or reactive approach to the China–US trade war, it is useful to conceptualize a multi-level settlement architecture. Such a framework links bilateral tariff and technology negotiations with domestic industrial strategies, financial-sector governance, and broader multilateral reforms. The key elements of this architecture are summarized in Figure 3.2.

Bilateral tariff and technology negotiations
Gradual reduction or restructuring of Section 301 tariffs; phased removal of retaliatory measures; rules on export controls, IP protection and data/tech transfers.

National industrial and technology strategies
Alignment of US industrial policies (CHIPS Act, IRA, Investing in America) and China's strategies (Made in China 2025, dual circulation) with long-term financial stability and open, predictable trade.

Investment and financial governance
Bilateral and plurilateral investment-screening regimes; macro-financial surveillance of capital flows and systemic risks; coordination on debt sustainability, financial regulation and crisis backstops.

Regional and plurilateral stabilizing corridors
Use of regional agreements (RCEP, CPTPP, ASEAN-centered formats, EU–US and EU–China dialogues) as buffers against shocks; diversification of trade and supply chains through "friend-shoring".

Multilateral modernization and systemic governance
WTO dispute-settlement restoration and rule updates; IMF macro-financial surveillance and early-warning tools; OECD and G20 analytical frameworks and coordination platforms.

Figure 3.2. Multi-level settlement architecture: bilateral tariff and tech negotiations, national industrial strategies, investment/financial governance, multilateral modernization, and regional stabilizing corridors.

Source: structured by author;

The scheme in Figure 3.3 highlights that durable de-escalation cannot be achieved solely at the bilateral level. Tariff reductions and technology arrangements must be coordinated with national industrial policies, credible rules for investment and financial flows, and gradual modernization of multilateral institutions. Regional

and plurilateral frameworks play a buffering role, helping to absorb shocks and reduce the risk that a renewed escalation between China and the United States destabilizes the global financial system.

From the perspective of practical policy recommendations, the most consistent settlement model can be described as competitive coexistence. Under this model, the protagonists accept that strategic competition will persist, but they build a framework that prevents competition from turning into a destabilizing spiral. Competitive coexistence requires five operational principles. First, proportionality: trade measures should be transparent and limited to the scale of the alleged distortion, avoiding symbolic maximalism. Second, sectoral differentiation: sensitive industries remain protected, while non-sensitive ones are opened for gradual tariff easing. Third, enforceability: any agreement must include clear compliance indicators, otherwise it becomes rhetorical and collapses under domestic pressure. Fourth, predictability in financial and investment policy so firms can plan without constant fear of sudden corridor closure. Fifth, cooperation in global public goods (climate, health security, financial stability), which creates limited trust channels and reduces the zero-sum character of the relationship. These principles do not end rivalry but transform it into a stable regime (Trading Economics, 2023).

The development of settlement strategies also depends on domestic political communication. In both countries leadership must be able to explain de-escalation without appearing weak. This requires framing tariff reductions or cooperation not as concessions, but as instruments that protect domestic welfare and long-term security. For the US, easing selected tariffs should be justified through inflation control, supply-chain optimization, and acceleration of green transition goals. For China, internal demand stimulation and partial openness can be defended as strengthening national resilience rather than yielding to pressure. Political framing is not cosmetic: without it, domestic constituencies sabotage settlement even when economic logic supports de-escalation.

In conclusion, the settlement of the China–US trade war is best understood as the design of a new regulated rivalry rather than the restoration of a previous liberal

order. Tariff management, negotiation sequencing, disciplined retaliation, domestically balanced industrial strategies, rule-based investment governance, multilateral modernization, and standards diplomacy compose the core policy infrastructure needed to contain the confrontation (Cochrane, 2018). The strategic objective is to minimize the financial and welfare costs of rivalry while preserving each side's essential security interests. If these strategies are applied consistently, the conflict can shift from a destructive escalation cycle to a predictable system of competitive coexistence. Such a transformation would reduce global volatility, improve investment planning, stabilize supply chains, and allow the world economy to adapt to great-power competition without sliding into permanent fragmentation.

The analysis of the current stage of the China–US trade war confirms that the confrontation has already exceeded the boundaries of a classical tariff dispute and has become a long-term system of regulatory and strategic competition. Therefore, the logic of "conflict solution" cannot be reduced to the expectation of one peace agreement or a rapid return to pre-2018 liberal trade norms. In modern conditions, the settlement of such a trade conflict is better interpreted as multi-level management of rivalry, where the objective is to limit macro-financial damage, prevent uncontrollable escalation, and construct predictable rules of engagement in those sectors that are strategically sensitive. The policy toolkit that shapes this management includes national trade regulations, industrial and innovation strategies, financial and investment screening instruments, and multilateral diplomacy. Each of these dimensions must be evaluated not only as a political reaction but as a factor influencing financial stability, investment behavior, and future trade architecture (Mercer, 2019).

At the bilateral level, the first group of regulatory strategies refers to tariff policy itself. Over the war years both sides used tariffs as a signal of resolve and as an instrument of domestic protection. Yet the evidence of the conflict suggests that tariffs have diminishing returns once they become permanent. Their short-term effect may include partial reallocation of trade flows and protection of specific industries, but the longer they stay in place, the more they act as an inflationary and efficiency-

reducing tax on domestic consumers and firms. This is why an effective settlement strategy requires a phased and selective approach to tariff reduction rather than a sudden rollback or a new uniform increase (Flaherty, 2021). Gradual easing in non-strategic consumer goods, intermediate inputs with low security relevance, and sectors where both sides still benefit strongly from interdependence can lower the uncertainty premium for investors and reduce supply-chain costs without forcing either side to compromise on strategic positions. In contrast, maintaining higher tariffs for security-linked industries (frontier semiconductors, dual-use equipment, critical minerals, advanced digital infrastructure) may remain politically unavoidable. The core settlement logic is therefore asymmetry: reduce barriers where cooperation yields clear welfare gains, but stabilize boundaries where rivalry is rooted in security concerns. This approach reshapes the conflict from a chaotic spiral into a predictable corridor of managed competition.

A second bilateral strategy is institutionalized negotiation sequencing. Previous rounds of talks showed that negotiations fail when they attempt to solve every structural disagreement simultaneously. The dispute includes issues as diverse as subsidy discipline, state-owned enterprises, data and cybersecurity rules, technology transfer, and market access conditions (Toban, 2019). When all these elements are placed on the table at once, each side interprets compromise as systemic surrender. In practice, the conflict needs a layered negotiation design: first, stabilizing agreements on narrow trade-friction areas (tariff freezes, sectoral exemptions, technical working groups); second, enforceable instruments to address specific structural controversies (transparency of subsidies, sector-specific IP commitments, licensing rules for technology exchange); and only after that, a broader “framework understanding” that redefines the accepted balance between state industrial policy and market competition. A staged format does not remove rivalry, but it makes de-escalation realistic because it creates intermediate achievements that can be politically defended inside both countries. It also reduces the probability of sudden policy shocks, which is crucial for global financial stability (Nickel & Gu, 2020).

A third bilateral strategy concerns the rules of retaliation. The China–US

dispute shows that retaliation becomes most destabilizing when it is unpredictable and symbolically maximal. A workable settlement path requires defining de-escalation principles that limit retaliation to proportionate and transparent measures, avoiding surprise bans that shock financial markets. Even without full trust, both sides can recognize mutual interest in reducing volatility. An example of this logic is the preference for legalistic and pre-announced countermeasures rather than sudden embargo-style decisions. Predictability itself is a form of settlement because in financial terms stable expectations prevent risk-off cycles, capital outflows, and sharp repricing of corporate assets. Therefore, negotiation should be oriented not only toward "who wins tariff levels," but toward "how to stabilize the rivalry's rhythm" (Crowley, 2020).

At the national policy level, settlement is inseparable from industrial and technological strategy. The trade war is driven by the perception that technological leadership determines future economic security. That is why both sides increasingly combine tariffs with industrial subsidies, domestic innovation programs, research financing, and supply-chain localization. Because of this structural logic, a solution cannot mean "ending industrial policy." Instead, it must mean creating rules that reduce the destructive spillovers of industrial competition. For the United States, this involves linking protection measures to domestic competitiveness targets rather than to rigid deficit reduction ambitions. The objective is to rebuild strategic ecosystems (advanced manufacturing, clean-energy hardware, semiconductor capacity) while avoiding protectionism that becomes a burden on consumers. A balanced national strategy therefore requires constant evaluation of the inflationary effect of tariffs, the fiscal cost of subsidies, and the productivity payoff from domestic re-industrialization. If protection exceeds its benefit, it undermines the very competitiveness it is meant to secure. Consequently, settlement strategy for Washington implies "disciplined protection": tariffs and controls targeted only at sectors where national security or strategic autonomy is clearly at risk, accompanied by domestic reforms that strengthen innovation and workforce skills (The Guardians, 2018).

For China, the long-term settlement logic is also domestic. Beijing's primary external vulnerability is the perception of structural imbalance caused by export-driven overcapacity and insufficient domestic consumption. Even if China insists that its trade surplus emerges from comparative advantage, the political economy of partner states interprets persistent surpluses combined with state support as distortion. This fuels coalition-based protection in the West and makes external settlement harder for China. Therefore, one of the most effective strategies for Beijing is internal rebalancing: strengthening household income confidence, expanding social safety nets, and enlarging domestic demand so that growth relies less on export oversupply. The practical effect would be twofold. Internally it would stabilize growth and reduce deflationary risk (Adekola, 2019). Externally it would narrow trade gaps, weakening the political justification for permanent tariff walls. In addition, China's innovation strategy needs to address not only the quantity of technological advancement but also transparency of state support and the credibility of intellectual property enforcement. In a world where technology is securitized, credibility becomes a strategic asset. If China demonstrates clearer boundaries between legitimate industrial upgrading and subsidy-driven dumping, it improves the chance of selective accommodation with trading partners even amid rivalry.

A separate settlement dimension is the regulation of investment and financial flows. The conflict has increasingly moved into the sphere of investment screening, outbound investment controls, and restrictions on cross-border mergers in strategic sectors. Financial strategies matter because they shape long-term supply-chain geography. When firms believe that investment corridors will remain open, they continue global integration; when they expect tightening, they relocate capital into trusted regions. Thus, settlement requires clearer, rule-based investment governance. For the US and its partners, screening should be risk-based rather than universal: focused on genuinely dual-use technologies and national infrastructure, while preserving openness for non-critical investment that benefits productivity. For China, settlement-oriented financial policy includes improving the predictability of the regulatory environment for foreign investors and limiting informal pressure tools that

raise political risk premiums. If capital markets view the corridor as excessively politicized, they demand higher returns or exit, which damages growth prospects for both sides. Therefore, stabilizing investment rules is not secondary to trade settlement; it is one of its central pillars (Lu, 2023).

The multilateral level of settlement is equally decisive. The trade war demonstrated that global trade governance is not fully equipped to discipline great-power rivalry. When dispute-settlement institutions look weak or outdated, the incentives for unilateral action grow. A realistic settlement strategy therefore includes modernization of multilateral rules, even if the protagonists themselves remain reluctant. The most urgent reform areas include subsidy discipline, transparency of state support, treatment of state-owned enterprises, digital trade and data governance, and enforceable timelines for dispute settlement. Without such reforms, any bilateral peace remains fragile because structural disagreements quickly reappear in new forms. Multilateral modernization is also financially stabilizing: when rules are credible, markets interpret conflicts as manageable rather than existential, and volatility declines. Even partial reform can lower uncertainty by clarifying what is considered legal industrial policy and what is considered distortion (Bacchus et al., 2017).

However, universal multilateral reform is slow, so regional and plurilateral frameworks become practical settlement corridors. Third-party trade agreements and regional supply-chain alliances can absorb redirection and reduce shock transmission. For many economies, participating in regional rules that emphasize stable standards, dispute procedures, and investment predictability helps to insulate them from China–US escalation waves. Yet this also contributes to regionalization of world trade. From a settlement perspective, regional frameworks should reduce fragmentation by remaining open and compatible with global rules, rather than becoming exclusive blocs. The goal is to keep the global economy connected through overlapping corridors, not to lock the world into permanent rival camps.

Another crucial policy instrument is standards diplomacy in technology and climate-related manufacturing. Since the rivalry increasingly unfolds around

semiconductors, electric mobility, batteries, AI, biotechnology, and digital infrastructure, the battle over standards determines future market access more than tariffs do. Settlement strategies therefore require "rules for the standards war." Even if the US and China do not fully converge, they can negotiate minimal interoperability principles, transparent certification requirements, and predictable export licensing to avoid chaotic fragmentation. Without standards dialogue, firms face parallel compliance systems and higher capital costs, which reduces productivity globally. Standards cooperation is not a sign of trust; it is a necessary risk-management tool in a high-tech rivalry environment (Farah & Phansalkar, 2019).

Because the trade war produces spillovers to third countries and emerging markets, multilateral financial institutions also play a settlement role. Their warnings, scenario modeling, and policy surveillance reduce the probability that trade escalation transforms into a financial crisis. The settlement strategy here is preventive stabilization: promoting macro buffers in emerging markets, supporting flexible exchange regimes, discouraging competitive devaluations, and maintaining liquidity frameworks to handle risk-off cycles caused by headline shocks. While institutions cannot force Washington or Beijing to stop the war, they can reduce the cost of escalation for the rest of the world and help avoid contagion. This is a financial settlement layer, even if not a political one.

From the perspective of practical policy recommendations, the most consistent settlement model can be described as competitive coexistence. Under this model, the protagonists accept that strategic competition will persist, but they build a framework that prevents competition from turning into a destabilizing spiral. Competitive coexistence requires five operational principles. First, proportionality: trade measures should be transparent and limited to the scale of the alleged distortion, avoiding symbolic maximalism. Second, sectoral differentiation: sensitive industries remain protected, while non-sensitive ones are opened for gradual tariff easing. Third, enforceability: any agreement must include clear compliance indicators, otherwise it becomes rhetorical and collapses under domestic pressure. Fourth, predictability in financial and investment policy so firms can plan without constant fear of sudden

corridor closure. Fifth, cooperation in global public goods (climate, health security, financial stability), which creates limited trust channels and reduces the zero-sum character of the relationship. These principles do not end rivalry but transform it into a stable regime (European Commission, 2018).

The development of settlement strategies also depends on domestic political communication. In both countries leadership must be able to explain de-escalation without appearing weak. This requires framing tariff reductions or cooperation not as concessions, but as instruments that protect domestic welfare and long-term security. For the US, easing selected tariffs should be justified through inflation control, supply-chain optimization, and acceleration of green transition goals. For China, internal demand stimulation and partial openness can be defended as strengthening national resilience rather than yielding to pressure. Political framing is not cosmetic: without it, domestic constituencies sabotage settlement even when economic logic supports de-escalation (UN News, 2018).

In conclusion, the settlement of the China–US trade war is best understood as the design of a new regulated rivalry rather than the restoration of a previous liberal order. Tariff management, negotiation sequencing, disciplined retaliation, domestically balanced industrial strategies, rule-based investment governance, multilateral modernization, and standards diplomacy compose the core policy infrastructure needed to contain the confrontation. The strategic objective is to minimize the financial and welfare costs of rivalry while preserving each side's essential security interests. If these strategies are applied consistently, the conflict can shift from a destructive escalation cycle to a predictable system of competitive coexistence. Such a transformation would reduce global volatility, improve investment planning, stabilize supply chains, and allow the world economy to adapt to great-power competition without sliding into permanent fragmentation.

Conclusion to the section 3

This chapter has demonstrated that the China–US trade war is entering a long,

structurally driven phase in which full predictability is impossible, yet the direction of change is already visible. The rivalry is no longer limited to tariffs: it is embedded in technological competition, industrial policy, and competing concepts of economic security, which makes a rapid and complete return to pre-2018 trade openness unlikely. At the same time, the analysis confirms that prolonged escalation produces losses not only for the two participants, but also for third countries and global markets, since uncertainty, fragmented supply chains, and investment diversion spread far beyond the bilateral corridor. Therefore, the most constructive path forward lies in managed de-escalation: gradual tariff easing in non-strategic sectors, continuous diplomatic dialogue, and negotiation formats that reduce the risk of sudden shocks. Selective technological and climate cooperation, together with clearer multilateral rules and stronger dispute-settlement mechanisms, could help transform the confrontation from a destructive spiral into a more stable framework of competitive coexistence. In this sense, ending or at least containing the trade tensions is a necessary condition for restoring confidence in global trade, improving long-term growth prospects, and preventing the conflict from undermining international economic stability.

CONCLUSIONS

This qualification paper has demonstrated that trade wars are complex, multi-layered phenomena rooted not only in market frictions but also in structural rivalries over power, technology, and rules of global economic governance. In contemporary conditions, trade conflicts rarely remain limited to tariffs alone: they activate non-tariff barriers, investment screening, export controls, and industrial subsidies, all of which reshape the international financial environment. The initial motivation for most trade wars is typically the protection of domestic sectors, the correction of perceived unfair competition, and the political need to satisfy internal constituencies. However, even when these motives appear economically rational for a single country, their broader outcomes tend to be destabilizing. Trade wars raise import prices, distort allocation of capital, interrupt supply chains, and undermine trust that is essential for predictable investment planning. As a result, financial markets price higher geopolitical risk, firms delay long-term projects, and global growth potential weakens. Because of this, trade conflicts require not only bilateral bargaining but also effective multilateral mechanisms capable of limiting unilateral escalation and restoring stable expectations.

The China–US trade war has confirmed these patterns on an unprecedented scale. The confrontation between the two largest economies evolved from tariff retaliation into a systemic contest for technological leadership and economic security, producing deep financial consequences for both sides and for the world economy as a whole. The conflict affected currency dynamics, capital flows, corporate profitability, and global stock-market volatility, while forcing multinational firms to redesign supply chains and re-evaluate investment geography. China’s export-oriented sectors faced shrinking access to the US market and greater uncertainty in high-tech trade, which accelerated Beijing’s push toward self-reliance, domestic substitution, and diversification of external markets. The United States experienced higher costs in import-dependent industries and consumer segments, especially in technology and intermediate goods, while simultaneously attempting to rebuild strategic

manufacturing through industrial policy. Globally, the trade war created spillover effects far beyond the bilateral corridor: redirected trade benefited some third countries temporarily, yet overall it lowered the efficiency of global value chains, intensified market volatility, and contributed to a more fragmented and risk-sensitive international financial system. These outcomes emphasize that even a formally bilateral dispute can generate worldwide financial shocks comparable to major crises.

A key result of the research is the identification of the trade war's long-term structural direction. The rivalry is unlikely to end through a single agreement because it is now embedded in industrial strategies, security doctrines, and competing technological standards. Nevertheless, the analysis also shows that complete decoupling would be economically damaging for both countries and for global stability, making a managed form of coexistence more realistic than total separation. The most constructive path forward therefore lies in gradual de-escalation within non-strategic sectors, combined with clearer rules and predictable boundaries in strategic ones. Reducing tariffs where national security is not directly involved, restoring continuous diplomatic channels, and strengthening institutional frameworks for dispute settlement would lower uncertainty premiums and improve the investment climate. At the same time, selective cooperation in areas of shared interest—such as climate policy, public health resilience, and global financial stability—could prevent rivalry from escalating into a broader lose-lose confrontation. The paper has also shown that multilateral institutions remain essential for this process: despite current weaknesses, they provide the only legitimate platform for rule modernization and for constraining future unilateral shocks that destabilize markets.

In conclusion, the China–US trade war has become one of the defining forces shaping modern international trade and finance. Its financial implications extend from national inflation and investment cycles to global capital allocation and market confidence. The research confirms that prolonged confrontation undermines not only bilateral welfare but also the stability of the wider world economy, while accelerating regionalization and technological bifurcation. At the same time, the existence of interdependence means that negotiated stabilization is both possible and necessary.

Achieving a sustainable outcome requires policy realism from both sides: the United States must align protection with economic efficiency and avoid escalation that damages its own growth prospects, while China must address structural sources of external distrust by improving transparency, balancing production with domestic consumption, and reducing the distortive effects of overcapacity. If both countries, together with international partners, pursue these adjustments, the trade war can be transformed from a destabilizing spiral into a more predictable framework of competitive coexistence, reducing financial risks and supporting long-term global development.

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