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The US–China Trade Conflict: From Economic Engagement to Geoeconomic Rivalry: A Theoretical and Historical Analysis

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ABSTRACT

This paper offers a theoretical and historical perspective on the US–China trade war, suggesting that it has transformed from a typical trade war to a multidimensional geoeconomic and technological struggle. Based on the concepts of Hegemonic Stability Theory, Offensive Mercantilism and the perspective of Global Value Chains (GVCs), the study outlines how the emergence of China has threatened the liberal order led by the United States since the end of the Cold War, has opened the door to protectionism, strategic competition and the use of trade and technology as weapons. The historical analysis explains how the relationship between the US and China has changed from one of economic engagement (1990s–2017) to one of strategic competition, focusing on the process of China's accession to the WTO, the continuing trade imbalance, IP rights issues, and the "Made in China 2025" industrial plan. The article also covers the detail of the tariff and regulatory measures from 2018 to 2026, including the Phase One Agreement (2020), the "small yard, high fence" policy of the Biden administration (2021–2026), the renewed escalation during Trump's second term (2025), and the fragile Busan Accord (2025–2026). The results show this war to be a systemic change of paradigm from liberal interdependence to managed competition, with important consequences for global governance, supply chains and developing economies.

Introduction

International relationship in the 21st century is changing because of the increasing economic rivalry between U.S. and China. In 2018, it was a bilateral tariff battle but has escalated to a multi-dimensional fight on technology decoupling, supply chain changes, and strategic resource wars. The US-China trade conflict is now more than a trade dispute, it is a technology war, a geopolitical war and a battle over the future architecture of the global economy (Boylan et al., 2021; Sardar et al., 2025).

This article answers two key questions: Why and how did the US-China trade war come about? (2) What have been the trends of the relationship from an economic engagement to strategic rivalry between 2018 and 2026 and what are the most significant policy

milestones over this period? This article addresses these questions and offers a basic understanding of the roots and perpetuated nature of the conflict, which will be followed by studies of the global economic effects and policy responses of the conflict.

Theoretical Approaches to Modern Trade Wars

Traditional theories of free trade (comparative advantage and economic liberalism) have focused on economic efficiency as the basis for policy and interdependence as the basis for the reduction of conflict. The US–China trade war makes it clear how flawed these assumptions are, though. Rather, the three alternative frameworks provide better explanations.

Hegemonic Stability Theory and Power Transition

This Hegemonic Stability Theory argues that in order to have a stable international economic order, there must be a single dominant power (hegemon) that establishes and enforces rules. Following the end of World War II, the United States was that hegemon, and spread free trade, multilateral institutions (GATT/WTO) and open markets (Talibu et al., 2023). This balance has been tipped by the fast track that China has taken in its economic development. The US sees China as a threat to US hegemony as it has emerged as a manufacturing power, a leading exporter, and a technological rival. Power Transition Theory also suggests that the likelihood of conflict escalates when the new power is getting closer to the established power's level of power. This US-China trade war therefore is an expression of hegemony, in which the US is imposing tariffs and technological obstacles on its rivals to ensure it retains its dominance (de Sá Guimarães, 2020; Gavris, 2021).

Offensive Mercantilism

The mercantilist essence of thought is to see trade as a zero-sum game and states as interested parties in relative gains. Offensive Mercantilism is more advanced, and states consciously deploy economic measures such as tariffs, subsidies, sanctions, export controls, as tools of state power to cripple their rivals and promote the national security of a country (Haskan, 2021; Mengüaslan, 2025). This is very clearly evident in the US-China conflict. The US is applying tariffs and technology limitations to decrease their dependence on Chinese-manufactured goods and to stem technological progress in China. China has had state-led industrial policies (e.g., “Made in China 2025”) and state controls over rare earths resources to secure strategic sectors and enhance its self-reliance (Collins & O’Brien, 2023; Parsapour, 2024).

Global Value Chains (GVCs) Perspective

The division of production into distinct stages in different countries is a consequence of globalization and is called global value chains. China became a key node as it had low labour costs, infrastructure and was integrated into trade (Ali et al., 2026; Nawaz, 2026). The trade war caused the disruptions of these interconnected value chains: tariffs led to higher production costs, more uncertainty and companies diversified from China (Giovannetti et al., 2023; Suder et al., 2024). The GVC lens suggests that the trade war is no longer a bilateral phenomenon but has global repercussions on suppliers, investors and consumers around the world. Highly specialised, cross border value chains, such as the semiconductor industry, are a case in point, where export controls have put them under strain (Gereffi et al., 2025).

Limitations of Classical Free Trade Theories

The US–China trade war is not possible to be explained by classical theories because they do not consider geopolitics, national security and state intervention. They think that economies are not connected to security issues but trade policy is indeed heavily linked with technological competition and strategic rivalry in the trade war that appears to be ongoing. Furthermore, they downplay the importance of state-led industrial policy (China's subsidies, US tariffs) and vulnerability of concentrated supply chains due to COVID 19 (Garcia, 2020; Ofori-Amoah, 2024; Wang et al., 2024).

Historical Evolution from Economic Engagement to Strategic Rivalry (1990s–2017)

The US Policy of Engagement

The U.S. set a policy of engagement with China in the 1990s, which it hoped would through economic integration lead to liberalisation and interdependence, and thus to peaceful cooperation (Kahler, 2025; Ye, 2021). China was an important export country for the United States (US) and the United States (US) had invested heavily in Chinese manufacturing. This connection facilitated the globalisation process and, thus, also the economies of both countries (McFaul, 2020).

China's WTO Accession and Rising Tensions

It was a turning point when China joined the WTO in 2001. Exports went up, foreign direct investment (FDI) flooded in and China has become the "world's factory" (Liu, 2024; Nawaz & Lyu, 2026). There were however a growing number of concerns in the United States: trade deficits grew, manufacturing jobs were lost to China, allegations of intellectual property theft, forced technology transfer and currency manipulation arose (Wang & Sun, 2021; Witts, 2025). By the 2010s, the US believed that China was not adhering to the WTO rules.

The Rise of Strategic Competition and "Made in China 2025"

China's industrial policy "Made in China 2025" (2015) set out to make China a world leader in high tech manufacturing industries such as robotics, semiconductors, artificial intelligence, electric vehicles and biotechnology (Michelis, 2024; Yu, 2019). For US policy makers, this was an attack on the technological superiority of the USA. Policy was based on the subsidies from the state, forced technology transfer and strategic coordination leading to fears that Chinese companies would be able to take over the global markets in an unfair way (Rashidin & Javed, 2020; Xu et al., 2025).

The 2017 Strategic Pivot

In 2017, China was formally listed as a "revisionist power" in the United States National Security Strategy (NSS) aiming to "challenge America's dominance." (Zhang, 2022). The engagement came to an end and the containment began. In 2018, a trade war began between the Trump administration and China, which was sparked by an investigation into China's trade practices launched by the Trump administration in 2018 (Blackwill & Fontaine, 2024a, 2024b).

Tariff Chronology, Regulatory Mechanisms, and the Busan Accord (2018–2026)

The First Trump Administration (2017–2021): Escalation

- **2018:** In 2018, the USA levied tariffs on $34 million, then $50 million, then $110 million of Chinese products. China in turn retaliated in kind. Tariffs rose from 3% to 19–25% (Angwaomaodoko, 2025; Govindarajulu, 2026).

- **2019:** Continued escalation in 2019 including electronics, machinery and chemicals. The U.S. also banned Chinese technology companies, such as Huawei (Bown, 2021).

- **2020 Phase One Agreement:** China is to raise imports to the US and enhance IP protection via 2020 Phase One Agreement; US to halt further tariff increases. Most tariffs, however, were left and the implementation of the agreement was problematic because of the COVID-19 crisis and of the structural differences (de Haan, 2023; Galani & Kanellopoulos, 2025).

The Biden Administration (2021–2025): "Small Yard, High Fence"

The Biden administration maintained existing tariffs but focused on strategic technology restrictions: export restrictions on cutting-edge semiconductors, AI, quantum computing and chip manufacturing equipment (Cha et al., 2022; Sokolshchik, 2024). The aim was to stop China from getting hold of the technologies that would give it military and economic dominance and to encourage "friend shoring" of supply chains to friendly countries.

The Second Trump Administration (2025–Present): Renewed Escalation

Tariffs started to increase significantly from 2025, to as high as 145% on some of the Chinese goods, and China responded with a 125% (Abukari & Saluja, 2025). The US also put in place stricter rules of origin and anti-circumvention provisions to prevent

transshipment through third countries (Maggiolino, 2025). The new Section 301 investigation began in 2025 due to China's inability to fulfill its obligations under Phase One (Lamp, 2025).

The Busan Accord (2025–2026): A Fragile Truce

The Busan Accord was a temporary de-escalation agreement that was signed between the US and China in October 2025. Key provisions:

- Semiconductors tariffs postponed until 2027 in the U.S.
- China partially eased restrictions on rare earth exports (raised quotas and tightened up the licensing system).

Mutual recognition is to the principle of full decoupling, which is too expensive, and the accord does not solve any structural conflicts. It can best be viewed as a "strategic pause" to rethink the industrial and technological strategies of both parties (Cline, 2025; Ghori, 2026; Yeung, 2022).

Conclusion

This article has shown that the US–China trade conflict isn't a short time battle but a long term geoeconomic competition between the two countries and an overall reorientation from liberal interdependence to geoeconomic competition. There's a very good explanation for the causes of the conflict and its dynamics in the theories of Hegemonic Stability Theory, Offensive Mercantilism and Global Value Chains analysis. The connection has shifted from engagement (1990s-2017) to direct competition as a result of China's WTO accession, trade imbalance, controversy over technology transfer and the "Made in China 2025" plan. The tariff chronology 2018-2026 reveals an interesting pattern of escalation, truce (Phase One, Busan Accord), and a lasting shift to technology controls and supply chain fragmentations.

The Busan Accord provides for a temporary reprieve, but no solution. The war has completely reshaped the global governance of trade, increased the regionalisation of value chains and made semiconductors and rare earth elements a strategic weapon. As for policy makers and researchers, it is at least important to comprehend these theoretical and historical underpinnings, to help them cope with the coming highly disorganized global economy. Future articles will explore the implications of this war on the global economy and recommend some strategies for adapting to change in developing economies, especially Uzbekistan.

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