The Multi-Dimensional Impact of Sino-US Trade Frictions on the Global Economic Governance System

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Abstract. This paper aims to explore the multi-dimensional impact of Sino-US trade friction on the global economic governance system. The study is conducted from the four dimensions of trade, finance, technology and geopolitics. In terms of trade, the global value chain is reconstructed due to the Sino-US trade friction, and the authority of the World Trade Organization and the stability of the multilateral trading system are affected. In the financial field, the hegemony of the US dollar has been challenged and the international monetary system tends to be diversified. At the technological level, the competition between the two countries in the high-tech sector is becoming increasingly fierce, and the global innovation ecosystem and the setting of technology standards are facing a diverging situation. In terms of geopolitics, the strategic game between China and the US has made the relationship between major powers more complicated, and the development of regional economic cooperation mechanisms has also been affected. The article points out that these changes brought about by Sino-US trade frictions have reshaped the pattern and rules of global economic governance, bringing major challenges to the existing international economic order. Under these impacts, the global economic governance system is in urgent need of reform and innovation to adapt to the new international economic situation. This study is very important for understanding the current trend of global economic governance, and can provide theoretical reference for relevant policy making.

Keywords: Sino-US trade frictions; Global economic governance; Multidimensional shocks; International economic order; Reform of governance systems.

1. Introduction

Since the 21st century, trade frictions between China and the United States have been one of the most remarkable events in international economic relations. It has deeply affected the bilateral relations between the world's largest and second largest economies and brought multiple impacts to the global economic governance system. Therefore, this paper intends to explore the impact of this major event on the pattern of global economic governance and what changes it will bring about in the international economic order.

Data in the field of international trade in recent years show that the impact of Sino-US trade frictions has gone beyond the bilateral scope. According to the statistics of the World Trade Organization (WTO), the growth rate of global merchandise trade in 2019 was only 0.1%, much lower than the 2.9% in 2018. Although the global trade rebounded by 9.8% in 2021, the growth rate will return to about 3.5% in 2022. Such fluctuations show to a considerable extent the disruption brought by Sino-US trade frictions to the global trade pattern.

In terms of macroeconomics, data from the International Monetary Fund (IMF) show that the global economic growth rate was 3.6% in 2018, and then gradually declined to 2.8% in 2019. In 2020, it fell to a negative growth level of -3.1% due to the impact of the epidemic, but there was a rebound of 6.1% in 2021. However, the growth forecast for 2022 and 2023 has been lowered to about 3.2%. This change in growth trend is closely related to the evolution of China-US trade frictions.

Starting from the background and evolution of China-US trade frictions, this paper will deeply analyze the various impacts it has brought to the global economic governance system. After examining the WTO system, global value chain, international monetary system and global economic growth, this study aims to reveal how the Sino-US trade friction reshapes the global economic governance pattern and rules and the challenges that such changes bring to the existing international economic order. In addition, this paper also explores what reforms and innovations the global economic governance system needs to make to cope with these shocks in order to adapt to the new international economic situation.

This study is of great significance in understanding the current trend of global economic governance. It not only brings a new research perspective to the academic community, but also provides a theoretical reference and decision-ma

2. Background and evolution of China-US trade frictions

2.1. Historical context of China-Us trade frictions

Sino-us trade frictions are not new in recent years, but have profound historical roots. Since the establishment of diplomatic ties in 1979, although the economic and trade relations between the two countries have been developing on the whole, disputes have always existed. In the 1980s, textile quota was the first issue to cause disputes. Since China's entry into the World Trade Organization (WTO) in 2001, the trade volume between China and the United States has increased rapidly, but it has also brought new friction points such as RMB exchange rate and trade deficit.

In the early 2000s, the US launched a Section 301 investigation and took anti-dumping measures against China, which affected many industries such as steel and tire. After 2010, the rapid growth of China's economic strength made the US greatly more vigilant on China's strategy. The "return to Asia Pacific" strategy was proposed during the Obama administration. This can be seen to some extent that the United States wants to contain China's rise, and at that time, the differences between China and the United States in the South China Sea issue, network security and other fields are becoming more and more obvious, which will lead to a larger scale of trade frictions.

2.2. Trade policy shift of the Trump administration

Since the Trump administration took office in 2017, the US trade policy has taken a significant turn and pushed trade protectionism and unillateralism to a new height. With the core concept of "America First", it believes that globalization and free trade have damaged the interests of the US, so it has launched a series of radical trade policies c2].

First, the Trump administration withdrew from the Trans-Pacific Partnership (TPP) led by the Obama administration and renegotiated the North American Free Trade Agreement (NAFTA). Then, the US used trade investigation tools such as Section 232 and Section 301 on a large scale, and imposed tariffs on China and many other trading partners. Announced in March 2018, the United States imports of steel and aluminium products want pay the tariffs of 25% and 10%, respectively, a lot of people think that marked the start a trade war with China.

The United States then launched a larger Section 301 investigation against China and imposed 25 percent tariffs on $50 billion worth of Chinese goods in July and August 2018. China immediately retaliated in kind, escalating tariffs that by the end of 2019 had already hit hundreds of billions of dollars’ worth of goods with steep tariffs.

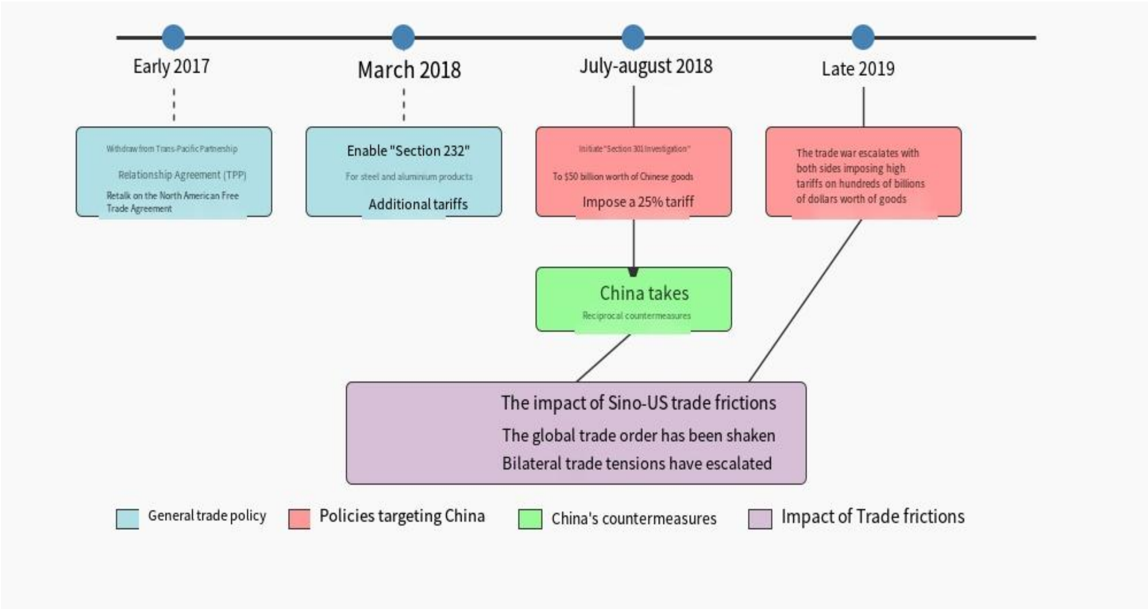

Figure 1. The Trump administration's trade policy has turned to trade frictions between China and the United States.

2.3. Major disputes in Sino-US trade frictions

The trade frictions between China and the US involve many disputes, which reflect the deep-seated contradictions between the two countries in the fields of economy, technology and geopolitics. The trade imbalance is the primary point of contention. The US has long blamed China for the huge trade deficit, saying that it is harmful to the US economic interests and job market. However, China believes that the trade deficit is caused by various factors such as different industrial structures and division of labor in the global value chain between the two countries.

Second, when it comes to intellectual property protection and technology transfer, the US has accused China of forced technology transfer and theft of intellectual property, but China has said that it has been improving its legal system for intellectual property protection and that7] there is no systematic forced technology transfer.

The US is critical of China's industrial subsidy policies, such as the "Made in China 2025" plan, which distort market competition, while China is not, arguing that industrial policies are necessary for developing countries to catch up with advanced countries and are in line with WTO rules9].

In addition, the disputes between the two sides also include market access, state-owned enterprise reform, network security and other issues, which reflects the fundamental differences between China and the United States on economic development model and global economic governance concept, which is also the deep reason for the escalating trade frictions.

3. The impact of China-Us trade frictions on the global economic governance system

3.1. Challenges to the WTO system

The World Trade Organization (WTO) system has been severely challenged by Sino-US trade frictions and the authority and effectiveness of the global multilateral trading system has been greatly weakened. The unilateral imposition of tariffs by the United States violates the basic principles of the WTO, such as the most-favoritized nation treatment and the binding tariff principle, and undermines the authority of WTO rules and provides an example for other countries to follow, thus potentially threatening the foundation of the multilateral trading system.

Secondly, in the dispute settlement mechanism under the WTO framework, China and the US have frequently filed lawsuits, but the US has blocked the appointment of judges to the Appellate Body, which has paralyzed the WTO dispute settlement mechanism. By the end of 2022, the Appellate Body of the WTO has not been functioning normally for nearly three years, which has seriously affected the effective settlement of global trade disputes.

In addition, the Sino-US trade frictions have exposed the shortcomings of WTO rules in dealing with the rise of emerging economies, dealing with issues related to state-owned enterprises, regulating industrial subsidies and other aspects, which has highlighted the urgent need for WTO reform to adapt to the new international economic situation. However, due to the differences between major member states, the WTO reform process has always been stalled. Thus, its role in global economic governance has been further weakened.

3.2. Remodeling of global value chains

The global value chain has been deeply affected by Sino-US trade frictions and the restructuring of global production networks. High tariffs have increased the production costs of multinational companies, so enterprises have to reconsider their supply chain strategies. According to the 2019 survey of the American Chamber of Commerce, more than 40% of Chinese enterprises in the United States plan to move some or all of their production out of China. This trend makes the trend of global value chain regionalization and localization more obvious 3].

Second, the global value chain has been accelerated by the confrontation between China and the United States in the high-tech sector. The sanctions imposed by the United States on China's Huawei and other technology companies have forced the relevant companies to find alternative suppliers, leading to the restructuring of the technology supply chain, and this divergence has an impact on the entire industrial ecosystem in addition to the directly related companies.

Moreover, this reshaping trend has been accentuated since the outbreak of COVID-19, as the vulnerability of global supply chains exposed by the pandemic has prompted countries to focus more on the security and resilience of supply chains. This has led to the emergence of the concepts of "nearshoring" and "friendly offshoring", which refers to the relocation of production to geographically nearby or politically well-connected countries 6].

The reshaping of global value chains will not only change the flow of international trade, but also have a huge impact on the participation of developing countries in the global economic division of labor, which may benefit some emerging economies but risks marginalizing others.

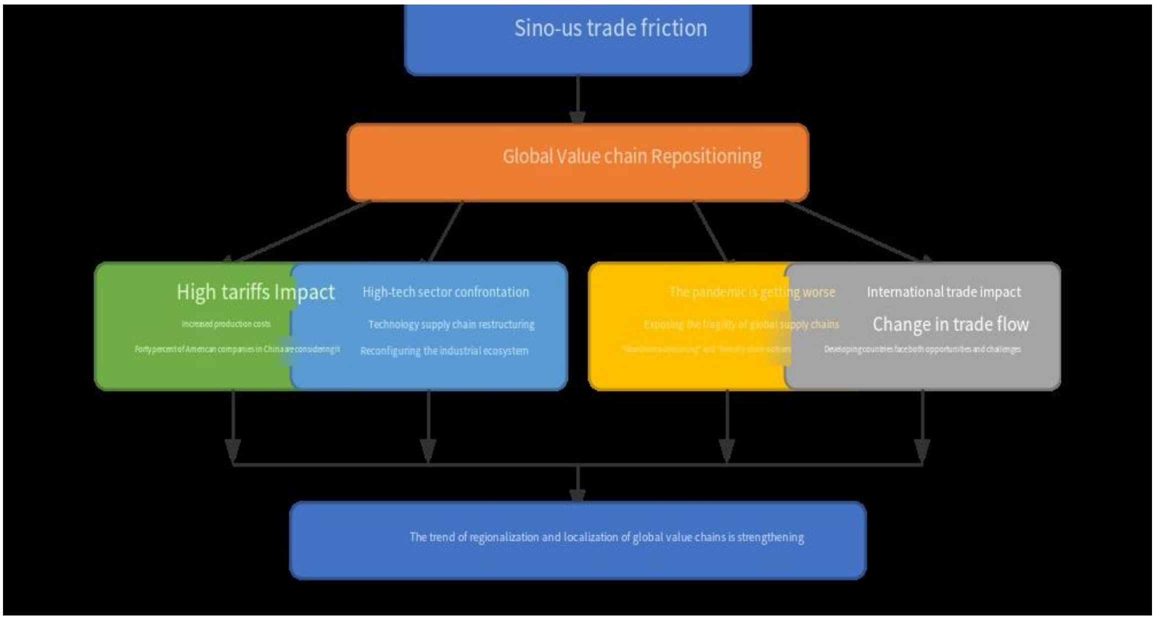

Figure 2. The reshaping of global value chain by Sino-US trade fictions.

3.3. Impact on the international monetary system

The international monetary system is significantly affected by Sino-US trade frictions, and the international monetary pattern dominated by the US dollar has encountered challenges, because the Sino-US economic and trade tensions have accelerated the internationalization process of RMB. In order to avoid the risk of the US dollar, China has vigorously promoted the use of RMB in trade settlement and international investment. Data from the Bank for International Settlements shows that the share of RMB in global foreign exchange transactions rose to the fifth place in 2022, accounting for 7%.

Second, the United States is always with the financial sanctions as diplomacy, this let other countries concerns its own system against the us dollar is too dependent on some countries to look for currency reserve diversification strategy to reduce $for rely on, as Russia since 2018 large holdings of us treasuries and by increasing their gold and currency reserves 10].

In addition, the international monetary system is digital currency development brings new variables, China first start digital pilot and the federal reserve is RMB $digital is committed to research, which could reshape international payment and settlement system and influence the currency in the future.

In general, the trend of diversification of the international monetary system has been accelerated by Sino-US trade frictions. Although the US dollar will still maintain its dominant position for a long time, its hegemony is facing more and more challenges.

3.4. Drag on global economic growth

Global economic growth has been significantly negatively affected by Sino-US trade frictions, as international trade flows are directly affected by increasing trade barriers. World Bank data show that the growth rate of global trade reached 1.2% in 2019, which is much lower than 5.6% in 2017, and the slowdown of trade growth will inevitably drag down global economic growth.

Secondly, business investment will suppress by the uncertainty of trade friction, the international monetary fund (IMF) studies have shown that the trade policy uncertainty could lead to a global GDP growth rate increased by 0.75%, and this uncertainty has affected consumer confidence, further constrain economic growth momentum.

In addition, the world's two largest economies are China and the United States, so the impact of slower growth in them on the global economy is particularly pronounced. According to the IMF, China's GDP growth rate in 2019 was 6.1%, the lowest in nearly three decades. Meanwhile, the US economic growth rate also dropped from 2.9% in 2018 to 2.3% during that period, and the simultaneous slowdown of the two economies has seriously weighed on global economic growth.

It should be noted that the negative impact of trade frictions is not evenly distributed. Countries related to certain industrial chains, such as Vietnam and Mexico, may benefit from industrial relocation in the short term, but in the long term, the overall slowdown of global economic growth will affect 5] all countries.

In general, global economic growth has been pressured by Sino-US trade frictions through multiple direct and indirect channels, and this impact has become more significant after the outbreak of COVID-19. Policy makers around the world face a great challenge of how to protect their national interests while maintaining global economic growth.

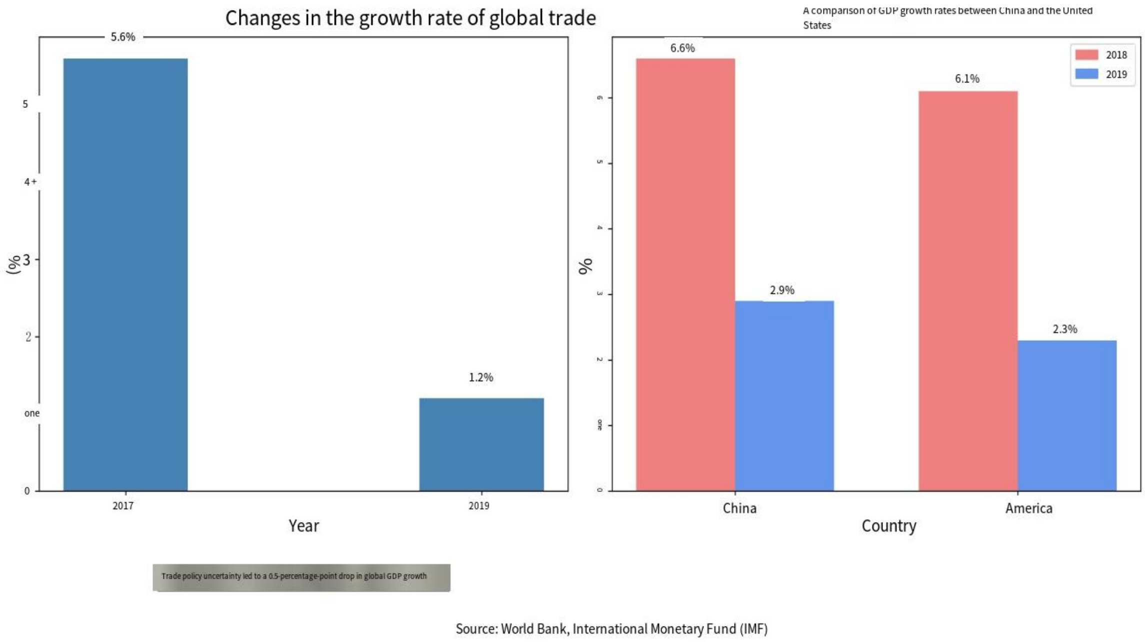

Figure 3. Impact of Sino-US trade frictions on global economic growth.

4. Response to and reform of the global economic governance system

4.1. The direction of WTO reform

The impact of Sino-US trade frictions on the global trading system has made the reform of the World Trade Organization (WTO) a consensus of the international community. The reform mainly focuses on the following aspects: The dispute settlement mechanism needs to be improved. In recent years, the US has paralyzed the WTO Appellate Body by blocking the appointment of judges, which has seriously interfered with the implementation of multilateral trade rules. Therefore, the reform should focus on improving the efficiency and fairness of dispute settlement to ensure the normal operation of the mechanism. Trade rules need to be updated. Due to the rapid development of emerging areas such as digital economy and service trade, the existing WTO rules can no longer adapt to the new situation. The reform needs to formulate rules related to new areas such as e-commerce and data flow, and reach new consensus on sensitive issues such as subsidies and intellectual property rights. Negotiation efficiency should also be improved. The stagnation of the Doha Round has exposed the rigidity of WTO's decision-making mechanism. Reform should explore more flexible negotiation methods such as "small multilateral" agreements to improve the efficiency of reaching consensus. Support from developing countries should also be strengthened, and reforms should focus on their interests in global trade and provide more technical assistance and capacity building to promote inclusive growth.

4.2. New developments in regional economic cooperation

Against the background of China-US trade frictions, regional economic cooperation has seen a new development trend, and the signing and implementation of large-scale free trade agreements has become a hot topic. The Regional Comprehensive Economic Partnership (RCEP), officially signed in November 2020, covers about 30% of the world's population and GDP, making it the world's largest free trade agreement. This represents an important step forward in the Asia-Pacific regional economic integration process. Digital economic cooperation has become a new highlight. For example, the digital economy agreement signed by Singapore and Australia in 2021, covering cutting-edge areas such as artificial intelligence and data innovation, has set a new benchmark for regional digital economic cooperation. Supply chain cooperation is also deepening. Due to the impact of COVID-19 and geopoliics, countries are paying more attention to supply chain security, and there is a trend to integrate and diversify supply chains within the region. For example, Japan's supply chain diversification support program is aimed at reducing dependence on a single market. Green development cooperation is also accelerating. Many regional organizations have put sustainable development on their cooperation agenda. Asean's Post-2025 Sustainable Development Vision reflects the shift toward higher-quality development in regional cooperation.

4.3. Diversification of the international monetary system

The diversification of the international monetary system has been greatly accelerated by Sino-US trade frictions. First, the internationalization of the RMB is steadily advancing. Data from the Bank for International Settlements show that the RMB will account for 7% of global foreign exchange transactions in 2022 (the figure was less than 5% in 2019), making it the fifth most actively traded currency. Secondly, new variables have emerged in the international monetary system due to the development of digital currencies. Central banks of many countries are actively developing digital currencies. For example, China's digital RMB has been piloted in many cities, and the European Union has also started the digital Euro project. Moreover, regional monetary cooperation continues to deepen. The scale of the Chiang Mai Initiative Multilateralization (CMIM) among ASEAN, China, Japan and the ROK has been expanded from the previous 180 billion US dollars to 240 billion US dollars, which has played a very important role in supporting regional financial stability. Finally, people paid attention to the role of the Special Drawing Rights (SDRS), in 2021, the international monetary fund (IMF) new allocated $650 billion of Special Drawing Rights (SDRS), which provides a strong support to the global liquidity, all of these trends show the international monetary system toward the direction of more diverse, more inclusive, dominated the situation was a challenge.

4.4. Innovation in global economic governance mechanisms

As the China-US trade frictions bring challenges to global economic governance mechanisms, the upgrading of multilateralism platform is one of them. Global economic governance mainly relies on the Group of 20 (G20), which plays an increasingly prominent role. The Rome Summit in 2021 for the first time includes climate change, digital economy and other new issues into the scope of discussion, which shows that the global governance agenda is expanding. Second, the new international organizations such as the Asian infrastructure investment bank (AIIB) was established in 2016 has yet to be approved after over 150 projects and the total investment over $30 billion to bring new channels for the global infrastructure. Third, the model of public-private cooperation has been innovated. The World Economic Forum has launched the "Stakeholder Capitalism" initiative to highlight the role of enterprises in social and environmental responsibility, thus providing new ideas for global economic governance. Fourth, the IMF has developed the Fintech Index, a digital governance tool that can help assess the level of fintech development in each country to inform policy decisions. Global economic governance is moving towards more inclusive, flexible and digital **错误!未找到引用源。**.

5. Conclusions

This study deeply explores the multi-dimensional impact of Sino-US trade frictions on the global economic governance system and the countermeasures. After analyzing the four dimensions of trade, finance, technology and geopolitics, it is found that Sino-US frictions have brought profound impacts on the existing global economic governance pattern. In terms of trade, Authority from challenges of the world trade organization and the multilateral trading system were reconstructed, and the financial aspect, the dollar hegemony in question and the international monetary system tends to diversity, at the technical level, in the competition in the field of high technology of China and the United States for global innovation ecosystem further differentiation, geopolitical, big game makes more complicated regional economic cooperation.

The global economic governance system is actively responding to and reforming these challenges. The reform of the WTO focuses on improving the dispute settlement mechanism, updating the trade rules, improving the efficiency of negotiations, and increasing the support for developing countries. There are new trends in regional economic cooperation, such as the signing of large-scale free trade agreements, the deepening of digital economy cooperation, the integration of supply chains, and the new progress in green development cooperation. The international monetary system is developing rapidly towards diversification and the internationalization of the RMB is progressing steadily. The development of digital currencies has brought new possibilities to cross-border payments. The global economic governance mechanism has made innovations in the upgrading of multilateralism platforms, the rise of new types of international organizations, the innovation of public-private cooperation models, and the application of digital governance tools.

The fact that global economic governance is moving towards a more inclusive, flexible and sustainable direction is reflected in these changes. Reshaping the global economic governance order is a long and complex task that requires the concerted efforts and wisdom of the international community. Therefore, the future global economic governance system should pay more attention to balancing the interests of all parties, promoting inclusive growth and addressing global challenges such as climate change, so as to build a new international economic order that is more fair, reasonable and effective.

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