Biden’s Options: Policy Recommendations on the US-China Trade War

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Biden’s Options:

Policy Recommendations on the US-China Trade War

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Abstract

As talks of unprecedented inflation and the long-term impact of the pandemic are on the rise in the United States, it is critical to understand how the foreign policy choices of the US Government ultimately impact its economy. This paper aims to evaluate the impact of the economic tensions between the US and China as a result of the ongoing US-China trade war. To examine the viability of proposed options, a cost-benefit analysis of Biden’s policy options is implemented based on a framework of escalation, de-escalation, or modification of the current US-China economic policy initiative. The analysis of these proposals is rooted in overarching foreign policy objectives of the United States such as: the encouragement of economic prosperity in the domestic sphere, improvements in quality of life for the American people, and the maintenance of US leadership and credibility on a global scale. Ultimately, the best choice for the Biden administration is to move towards eventual, but not imminent de-escalation through the strategy of policy modification. The most optimal policy recommendation that adequately takes into account US priorities and responsibilities is the modification of trade strategies and adherence to the tariff status quo. While this strategy would be at the expense of the opportunity to enhance economic growth, it is more critical at the present to maintain the current balance of power between the US and China.

Introduction

China has always been a significant priority for US foreign policy, and in the early stages of the Biden Presidency, this is still the case. While establishing their official platform, President Biden and Vice President Harris remarked that they viewed China as the most relevant foreign policy challenge they would face (Eran and Efron, 2020). Following up after the volatile relationship that Donald Trump maintained with China, the eyes of the world are on Biden to see how his administration aims to address the economic giant. As of now, Biden has not made any drastic moves or strategies to address the Trade War, but to what extent might inaction work to harm the American people? In the first part of 2021, the United States has continued to maintain negotiations with China, the most recent clash being a tense conference in Alaska. As China remains a key contender on the world stage, the development and implementation of a decisive plan is vital to maintaining US credibility.
Regardless of the current state of the Trade War, the development of a cohesive plan which prioritizes economic stability, quality of life for the American people, and US leadership and credibility, is critical for the United States. Therefore, this policy recommendation will provide a background of the current relationship between the US and China and assess how Biden could advance US interests within the existing parameters of the situation. A cost-benefit analysis on the influence of US-China relations on both a system and domestic level is also critical to include. Overall, this paper will aim to evaluate the current impact of the economic tensions between the United States and China and analyze the probable policy options for Biden based on a framework of escalation, de-escalation, or modification of the current US-China economic policy initiative, ultimately leading to the recommendation of maintaining the goal of eventual, but not imminent de-escalation through the strategy of policy modification.

**Background**

A Trade War can be defined as a scenario where a nation retaliates against the protectionist measures of another nation with equivalent or similar tariff rises or import restrictions (Polatay, 2020). The economic philosophy of protectionism, which is the idea of protecting a country's domestic industries by taxing foreign goods, has increasingly taken root in the global economic system in recent years. What evolves the concept of protectionist policies into a trade war is a phenomenon where one country targets another country explicitly by raising tariffs in key sectors of importance and the receiving country responds in turn.

The disagreements which fuel the reasons for the trade war stem from two primary explanations. The Trump administration asserted that it wanted to reduce its trade deficit with China and stop intellectual property theft of US technological advancements. From a balance of
power perspective, the trade war also serves to potentially slow down China's growth as an emerging superpower for technological development (Zhang 2018). This conflict is also fueled by a US-led international campaign to enforce international trade norms and demand China act according to norms set by the World Trade Organization (Eran and Efron, 2020). It is the retaliation of China with similar tariffs, as well as the lack of meaningful policy change that has stagnated negotiations and fueled the maintenance of the US-China Trade War.

The US-China Trade War began officially on July 6th, 2018, under the Trump administration when the US imposed a 25% tariff on global steel and aluminum imports and eventually expanded to other sectors following an investigation by the Office of the United States Trade Representative (USTR) on Chinese trade policies and practices. After the US imposed tariffs, China responded in turn with equivalent tariffs on US goods. By the end of 2019, “According to the effective tariff on US imports from China stood at 21%, compared to 3.1% at the beginning of 2018. The effective tariff on Chinese imported goods from the US stood at 20.9% compared with 8% at the beginning of 2018.” (Mackle, 2021). Despite an initial phase 1 “truce” between the US and China in January 2020, sanctions and tariffs have remained unaltered by the Biden Administration. It is due to this lack of willingness on both sides to come to an agreement or alter their strategies that sustains the ongoing trade war. Until more concrete agreements and productive talks take place, the US and China are indisputably still in a trade war despite initial agreements or attempts at de-escalation.

Framework

The administration's Interim National Security Strategic Guidance (2021) release affirms that economic statecraft should be a priority of American foreign policy. Economic statecraft is a
vehicle through which the United States achieves its foreign policy goals and includes measures such as foreign aid, trade policies, and economic sanctions. While the US and China have other points of contention, it is Biden's policy response to China in the realm of economics that will be examined when evaluating the impact of the Trade War. This analysis will be based in relation to the existing tariff status quo, specifically, as the US and China are already engaged in the Trade War, Biden has the option to either modify the levels of tariffs or leave the current levels of tariffs “as is” for the time being. Therefore, “escalation” and “de-escalation” represent an alteration of tariffs and the proposed “modification” strategy adheres to the current tariff status quo while seeking out alternative strategies.

The benefits of each strategy will be evaluated by three criteria: economic prosperity, improvements in quality of life for the American people, and maintenance of US leadership and credibility. Economic prosperity can be defined to be things like increased trade deals, wealth per capita, US market stability, and market competitiveness. A common measure of economic prosperity in this context is also the evaluation of potential loss of GDP. Quality of life for the American people can be defined in relation to things such as job availability, cost of living, and access to technology. While economic prosperity and quality of life are arguably correlated, the quality of life for the American people benchmark in this analysis focuses on how the Biden administration separates the wellbeing of working-class Americans and everyday issues from overarching benefits of foreign policy decisions.

The prioritization of the domestic sphere can be seen in a written essay by President Biden as he emphasized his focus on the tangible impact of trade deals as he questioned, “Who writes the rules that govern trade? Who will make sure they protect workers, the environment, transparency, and middle-class wages? The United States, not China, should be leading that
effort.” (Biden, 2020). This statement of global leadership connects Biden’s push towards a multilateralist strategy and the final criteria of evaluation, the maintenance of US leadership and credibility. While difficult to measure outright, this criteria references both US influence relative to China, as well as how the trade war impacts US alliances and global engagement. As Biden expressed a desire to return the US to a place of global leadership, multilateral initiatives also factor into maintaining the balance of power with China.

Cost-Benefit Analysis

Escalation Analysis

One possible US policy option for the Biden Administration is escalation. While this trade war does harm both economies, an escalation of the trade war would make a stronger push to reach an agreement while, on average, doing more damage to the Chinese economy holistically when compared to its impact on the US.

Benefits of Escalation

The benefits to this strategy are based upon the idea that on balance, the US is less affected by the trade war and has suffered fewer negative effects overall. The key to this is as argued by Lawrence Lau, “The costs of a trade war to an economy depends on how much an economy relies on its export sector.” (Lau, 2020). Lau then goes on to argue that in an extreme situation, “if all U.S. exports of goods to China cease, the loss of U.S. GDP may be estimated to be approximately 0.44 percent, also much lower than the potential 1.98 percent loss of Chinese GDP.” Therefore, the continuation of the trade war would create a strong motivation for the Chinese to pursue an agreement with the United States. This information is corroborated by the
assertion of Yuhan Zhang as he claims that China has unarguably been severely affected by the trade war due to its export-dependent market. Zhang estimates that Chinese firms could lose approximately $15 billion USD in revenue from the trade war (Zhang, 2021). While China could turn to other trading partners in the long term, an escalation of the trade war would force China to rapidly adapt its strategies and it could lead to giving the US an advantage when it comes to negotiations.

Costs of Escalation

While the maintenance of the trade war seems to be Biden’s goal, for now the escalation of tariffs on China would also have negative impacts on the United States. As has been demonstrated in the past, with every tariff that the US imposes on Chinese goods, the Chinese government responds with equivalent tariffs. While the US economy may be slightly more adept at adapting to these changes, it is clear that Chinese tariffs have had a very clear impact on the daily lives of Americans. According to the US Bureau of Labor, roughly 2,349,000 Americans worked in the agricultural sector in 2020. Prior to an increase in tariffs in 2017, “the US exported $19.5 billion worth of agricultural produce to China. Following retaliatory tariffs and reduced administrative purchases, agricultural exports to China fell to just $9.1 billion in 2018—a decline of 53%” (Mackle, 2021). This directly impacted the ability of the US agricultural sector to not only generate profit but also contributed to the loss of jobs in a scenario where the US was already struggling with unemployment in a pandemic.

Impact of Escalation
Evaluating these pros and cons through the pre-established framework, Economic Prosperity, improvements in quality of life, maintenance of US leadership and credibility. As one of the initial goals of these sanctions was to decrease the US trade deficit, based on an analysis of the impact of the tariffs on the trade deficit, “imposing tariffs cannot fundamentally resolve the trade imbalance.” (Zhang 2021). Therefore, while increasing tariffs may have an initial boost to economic prosperity in relation to China, on a larger scale, tariffs are not able to create the shifts on the world stage that the US is looking to achieve. For the quality-of-life dimension, the further escalation of China diverts the focus of the United States from recovering from the pandemic to the trade war. This also takes away funding from technology like the development of 5G while in extreme cases risking supply shortages if China cut off vital exports to the US as was discussed at the beginning of the pandemic. While it may be true that China also suffered unemployment, in a time where Biden has prioritized the domestic affairs of the United States, it would be prudent to emphasize the potential to lose even more jobs with an increase in sanctions.

As estimated in a simulation by Oxford Economics, in a trade war escalation scenario the US could stand to lose 732,000 jobs and $1.6 trillion in US GDP (Mackle 2021). Finally, when it comes to the maintenance of US leadership and credibility, an escalation of the Trade War would not likely negatively impact US Credibility and even has the potential to increase favorable attitudes with other US allies in Asia. Particularly, during the Alaska talks in March 2021, U.S. Secretary of State Antony Blinken said in an address to China “I just made my first trip to Japan and South Korea… I’m hearing deep satisfaction that the United States is back, that we’re re-engaged with our allies and partners.” Additionally, across countries within the Asia-Pacific region, “a median of 64% (of surveyed countries) in the region still prefer a robust American economic partnership over a Chinese one” (Cha 2020). This suggests to the US that if a conflict
with China were to escalate, other Asian nations would likely aim to maintain ties to the US. On a system level of analysis, the escalation of the trade war signals, as Secretary Blinken made clear, that the Biden Administration is poised to take decisive action where necessary. While the trade war might be beneficial to US international standing, on balance based on US foreign policy priorities this strategy has the potential to do more harm than good to the American people.

**De-Escalation Analysis**

An alternative strategy for the United States in formulating a strategy is the concept of De-escalation. This de-escalation would certainly not happen overnight, but it could come perhaps in the form of a “stage two” of agreements where each nation held stronger to the promises made in negotiations.

**Benefits of De-Escalation**

Economically speaking, even as the US is not as heavily impacted as China, the trade war is indisputably harmful to both economies. One possible scenario describes a plan where under de-escalation, “both governments gradually scale back average tariff rates to around 12% (compared with around 19% now), the US economy produces an additional $160 billion in real GDP over the next five years and employs an additional 145,000 people by 2025.” (Mackle, 2021). While the strategy of de-escalation could take many forms, it is clear that some form of tariff reduction could be beneficial to the US economy.

The overarching benefits of the de-escalation of the trade war tie into the idea of the prioritization of the US domestic market while also recognizing the effects of a potential
backlash in an escalation scenario. For the past 20 years, US inflation and consumer prices have been kept low because of US imports from China (Lau, 2020). This has benefited both American businesses and citizens. While an initial motivation for the trade war was Trump's criticism of China's ability to run a large trade surplus through this relationship as the US was running a large deficit, an analysis of the distribution of exchange reserves reveals a beneficial relationship for the US. Essentially, China was able to generate roughly 4 trillion USD in exchange reserves at one time through its relationships with US firms, however, “much of the Chinese foreign exchange reserves have been used to purchase U.S. government securities… which is undoubtedly a benefit to the United States” (Lau, 2020).

Another benefit of de-escalation is the ways in which it protects the US from any backlash in increasing Chinese sanctions, while also remaining diplomatically cautious. In an analysis by Michael Beckley and Hal Brands, they assert that while Washington could take drastic measures to counter China, forceful tactics might backfire and endanger vital alliances. It would contradict Biden's goal of pursuing multilateralism and leadership if drastic measures or escalation were to take place. If the US can maintain tense but civil relations with China, it can balance its conflicts with China by potentially “preserving the possibility of cooperation where American and Chinese interests overlap. China has given little indication of wanting a truly cooperative approach to combating COVID-19, for instance, but there are possibilities—such as coordinated vaccine distribution—for collaboration” (Beckley and Brands 2021). This cooperation would not be likely if sanctions and tariffs were to increase.
Costs of De-Escalation

On a system level of analysis, de-escalation initiated by the US calls into question US credibility, but also morality, as the international community begins to more closely examine the events surrounding the Uyghur–Chinese conflict. On April 23rd, 2021, the UK parliament declared the situation in China’s Xinjiang region a genocide. While the label of genocide has not been universally declared across the world, global condemnation has been clearly expressed. At the Anchorage conference, U.S. Secretary of State Antony Blinken expressed deep concern the US holds about the events in Xinjiang and emphasized that the US views these events as threats to the rules-based international order (Toosi, 2021).

Thus far in conjunction with US sanctions, Europe, Britain, and Canada have imposed tariffs on particular Chinese officials due to human rights violations. Therefore, if the US were to suddenly begin to reduce sanctions on China in the interest of protecting its own domestic markets, it would go against US allies and seemingly showcase that the US does not care about the rights abuses occurring in the region. What may be possible to explore is the intervention of a mediating institution such as the World Trade Organization to maintain pressure on China while reducing US responsibility, however, this solution would be difficult for the Biden administration to coordinate to serve as an immediate response and it could therefore be considered as a future potential pathway for negotiations. In the immediate future, at a time where the Biden administration is aiming to hold China to conform to international norms and uphold human rights, complete relaxation of the trade war would not be strategically advisable as it undermines US credibility.

Impact of De-Escalation
Ultimately, when it comes to solving the initial economic challenges of the trade war, both the US and China have made very little progress. Instead of continuing with this strategy that is not making progress at the cost of Americans, Biden should find an alternate method of challenging China that is more efficient.

A de-escalation of the trade war would improve the quality of life and economic prosperity for the American people. Under the proposed scenario above, “US household income would be $460 higher per household as a result of increased employment and incomes as well as lower prices.” (Mackle, 2021). This would improve the quality of life for Americans, especially in a time where many families are struggling economically in the wake of the pandemic. The challenge within this plan lies in either reaching an agreement with China or finding countries to replace import demand from China, both of which are massive tasks.

The most important consideration for Biden, and the reason why the administration is not likely to make a hasty decision, is ultimately focused on US leadership and credibility. In a time where Chinese trading practices and naval operations threaten the US and disturb the global market, Biden is under pressure to prove the willingness of the US to take a firm stand.

Modification Analysis

While the trade war is the most pressing conflict in the economic relationship between the US and China, it is important to acknowledge that the Biden Administration has more policy options available outside of escalation or de-escalation of the current trade war. Adhering to the status quo, specifically by maintaining the current level of tariffs and sanctions, is a viable option for the current administration. Instead of altering the trade war itself, the US should pursue alternative strategies to protect US interests while maintaining the balance of power with China.
Benefits of Modification

Modification of the trade war for the Biden administration could come in the form of pursuing diversified supply chains, limiting crisis vulnerability, and maintaining US competitiveness in global markets. Due to China's massively productive supply chain, America is dependent on China. Some of the biggest exports to China from the United States are intellectual property and transportation, such as airplanes, etc. In 2019, China was the United States’ largest supplier of goods imports, the top import categories were “electrical machinery ($125 billion); machinery ($92 billion); furniture and bedding ($27 billion); toys and sports equipment ($25 billion); and plastics ($18 billion).” (Office of the United States Trade Representative, 2019). If the US were to attempt to diversify the countries in which it trades these materials, it could maintain its pressure on Chinese markets and mitigate the damage to the US economy. One of the most obvious alternatives to China is the European Union as a trade alternative as the EU is the third-largest economy in the world behind the US and China. The EU appears to share the same sentiment as the US as increasingly, the EU is beginning to also condemn Chinese trade practices and its human rights violations.

A critical benefit to reducing reliance on Chinese goods and diversifying supply chains is that it limits overall crisis vulnerability for the US. During the beginning of the pandemic in March 2020, China threatened to stop the US pharmaceutical supply in the midst of the COVID-19 pandemic and demonstrated its leverage over the US. Scenarios like this may become increasingly common and Beckley and Brands argue that as US-China tensions increase, the US should limit its vulnerability to Chinese markets. While this will take a creative and long-term strategy, it is unlikely that US-China tensions will calm anytime soon. This strategy will require the US to build greater resistance in reliance on Chinese components for American munitions,
finding alternate suppliers for medical supplies, and identifying products that are too vital or expensive to be produced in China (Beckley and Brands, 2021).

A final arm of the modification strategy is focused on the domestic sphere in the form of the proposed “America LEADS Act.” This is an initiative proposed in September 2020 that is focused on American Labor, Economic Competitiveness, Alliances, Democracy, and Security. This strategy has four key policy components which are investing in 5G technology and artificial intelligence, supporting cooperation with allies, supporting the diplomatic system, and ensuring that China faces the consequences for its use of military force and predatory trade practices (Eran and Efron, 2020). In the support of funding for 5G communications technology and the establishment of the goals of supporting the democratic system across the globe, the US could ensure it is taking steps to counter Chinese influence within the tech sector while supporting its domestic markets.

Costs of Modification

One of the biggest costs of this strategy is the viability and complexity of negotiations. Even as the EU is a potential trade alternative, brokering a deal with the US could damage EU China relations. It is hard to predict what the reaction of the EU will be because even as they are beginning to protest China's trade practices and human rights violations, they still benefit heavily from Chinese trade. In fact, in 2020, China became the EU’s biggest trade partner, replacing the US. According to the EU’s statistical office Eurostat, in 2020 the EU saw an increase of imports by 5.6% and exports by 2.2%. At the same time, the EU is trying to deepen its economic ties with China and is seeking the ratification of new investment deals to allow better access to the Chinese market for European firms (BBC News, 2021). If the EU is able to solidify these ties, it
could alter the overall balance of power with the US regarding the EU as an ally in countering China. Therefore, seeking a trade deal with the EU would likely be a long-term and delicate endeavor for the US.

Impact of Modification

Overall, the Biden administration should recognize that the maintenance of US independence and reduction of potential vulnerabilities is critical for the US to maintain its freedom of action and credibility. In considering the domestic impact of modification, it is important to understand that if tariffs are not relaxed the US will indeed continue to suffer a net loss of jobs and GDP, two aspects that directly connect to the foreign policy goals of economic prosperity and quality of life. As was experienced during the trade war, there was an estimated net GDP decrease of $108 Billion USD from 2018-2019 and 245,000 fewer jobs (Mackle 2021). While these factors are significant to consider, it is critical at this moment in time for the US to prioritize the third established policy goal of US leadership and credibility in order to maintain the balance of power overall.

Diversification of trade avenues ensures that the US has the freedom to take more explicit action to counter China if necessary while preventing its citizens from the backlash of supply lines being cut in the potential aftermath. While the long term of not immediately cutting sanctions will lose US jobs, the potential harm that could be done to US citizens receiving the backlash of any drastic action towards China prioritizes the stability of the US domestic sphere while continuing to invest in its competitiveness through strategies such as the LEADS act. A modification of the current economic strategies, at perhaps the expense of net economic gain,
could lead to a less volatile situation for both nations, and the avoidance of volatility benefits both the domestic and international interests of the US.

Criteria Summary

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<thead>
<tr>
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<th>Economic Impact</th>
<th>Quality of Life</th>
<th>US Leadership and Credibility (Balance of Power)</th>
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</thead>
<tbody>
<tr>
<td>Escalation</td>
<td>$1.6 Trillion loss GDP (2021-2025 estimate)</td>
<td>732,000 fewer jobs</td>
<td>Potential fissure with EU</td>
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<td></td>
<td>No guaranteed modification of China's policies</td>
<td>Less focus on 5G capabilities and more focus on trade war</td>
<td>Trade war is not currently achieving US goals</td>
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<td></td>
<td>US would maintain or potentially improve trade relations with other nations in the Asia-Pacific region</td>
<td>Risk of shortages of medicine or other important goods</td>
<td>China harmed more than US</td>
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<td>US proactive in countering China</td>
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<td>Increased favorability with other Asian countries</td>
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<tr>
<td>De-Escalation</td>
<td>$160 Billion gain GDP (2021-2025 estimate)</td>
<td>145,000 additional jobs</td>
<td>Disregards increasing condemnation of Chinese human rights violations.</td>
</tr>
<tr>
<td></td>
<td>Lower inflation rate</td>
<td>Lower consumer prices because of US imports from China</td>
<td>Loss of US credibility by backing out of trade war without change.</td>
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<td></td>
<td>Ability to benefit from trade with EU, China and other Asian nations without conflict of interest</td>
<td>More access to Chinese tech components at lower costs</td>
<td>Perception of prioritizing domestic interests over multilateral engagement</td>
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<tr>
<td>Modification (Status Quo)</td>
<td>$108 Billion loss GDP (over 2018-2019)</td>
<td>245,000 fewer jobs</td>
<td>Avoidance of volatility or shifts of the balance of power</td>
</tr>
<tr>
<td></td>
<td>Diversification of supply chains leading to reduction of dependence on China</td>
<td>Maintain market access to China- boosting US businesses</td>
<td>No alteration or loss of US credibility</td>
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<tr>
<td></td>
<td></td>
<td>Avoidance retaliation from China that could impact US citizens</td>
<td>Able to maintain trade relationships with allies tied to China such as the EU</td>
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Conclusion

With the US and China Being two of the world's largest economies, how the Biden Administration handles this conflict could have massive impacts for generations to come. It is within the United States’ best interest to avoid severing its ties with China as China is estimated
to drive roughly one-third of global growth over the next decade. Therefore, it is vital to US businesses to maintain market access to China to ensure competitiveness (Mackle 2021). Based strictly on the evaluation of US GDP and Employment, as estimated in an Oxford Economics simulation, a trade war de-escalation is the only forecasted scenario where the US both increases its GDP and increases job availability. In this scenario GDP increases by an estimated $160 Billion USD over 2021-2025 and the US could gain 145,000 jobs. While the US has lost billions of dollars being involved in this trade war, an escalation has the potential to drive the value of US GDP $1.6 trillion dollars lower over the course of the same timeframe. Maintaining the tariffs according to the status quo still results in a loss of both GDP and US jobs. Applied to the policy goals of economic stability and improving quality of life for Americans, de-escalation when compared to escalation is the preferable route, however, what is important to remember is that de-escalation is not the only option.

After applying the framework of US foreign policy objectives of economic prosperity, improvements in quality of life for the American people, and the maintenance of US leadership and credibility to the overarching method of economic statecraft, it is clear that regardless of what the details of the trade negotiations are, it is within America's best interest to move in the direction of de-escalation, but also to uphold its engagement and pressure on China. This being said, it is vital for the US to be clear about its beliefs and continue to criticize unfair trading practices or infringements on human rights such as the Uyghur–Chinese conflict. It is striking a balance between these two dimensions of establishing trade while adhering to the belief systems of the US that is the challenge for the Biden Administration in any upcoming negotiations.

Within this balance, the avoidance of volatility within the situation is a key priority for further strategy development. Therefore, the pursuit of the modification of the trade war through
competition with China, combined with a push to diversify US trade routes, puts the US in the unique position of being able to fulfill its goal of global leadership without endangering its domestic markets. While in an ideal scenario the US and China would be able to sit at a table and come to a decisive agreement, it appears that tensions and competition between these two nations are to continue to rise, and with that, it is the responsibility of the US to ensure it can provide stability for its citizens first and foremost. Cooperation between the US and China would be a net benefit to both countries, but the Biden Administration also has a degree of responsibility to defend US allies and combat unjust trade practices.

While this conflict is likely to continue for years to come, the establishment of a consistent and decisive strategy of eventual de-escalation while modifying US trade strategies to prioritize US citizens is the most responsible path to ensure the protection of US influence on the world stage while ensuring domestic prosperity. The optimal policy recommendation that adequately takes into account the predetermined factors of economic prosperity, quality of life, and US credibility is the modification of trade strategies and adherence to the tariff status quo at the expense of economic advantage in order to prioritize the current balance of power between the US and China at the present.
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