

The Sino-US Trade Cost Transmission Mechanism and Corporate Response Strategies under the Background of Escalating Trade Protectionism

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Abstract

Since 2018, the U.S.-China trade conflict has intensified, with the U.S. increasing tariffs, imposing technological blockades, and restructuring supply chains. This new approach extends beyond traditional tariffs to include technical specifications and industrial chain reorganization, affecting companies' cost management and strategic decisions. However, current research has not thoroughly investigated the driving factors and corporate responses related to trade costs. This study develops a "policy-cost-enterprise-market" model to reveal the impacts of policy changes, supply chain adjustments, and market feedback while analyzing cost pressure and response strategies among businesses of varying industries and sizes. This study shows that trade protectionism has escalated due to economic competition, political rivalry, and strategic limitations, with new diversification characteristics, broad application, and long-term effects. It proposes a four-dimensional framework for corporate response strategies: reduce reliance on a single resource through market diversification, bolster supply chain resilience and cost-sharing, tackle technical barriers with innovation, and mitigate regulatory risks through compliance management and policy negotiation. This study offers insights into the effects of increased trade protectionism and provides recommendations for companies in the Sino-U.S. trade chain to develop effective response strategies.

Keywords

Trade Protectionism, China-US Trade, Cost Transmission Mechanism, Corporate Response Strategy.

1. Introduction

Faced with the countercurrent of the globalization process, trade protectionism is reshaping the global economic and trade pattern in a more complex and lasting way^[4]. As the world's top two economic powers, the trade volume between China and the United States accounts for more than 15% of the total global trade in goods. The policy competition between the two countries directly impacts the survival and development of more than 20 million related companies. Also, it affects third-party markets such as the European Union and ASEAN through the ripple effect of the global value chain^[3]. According to statistics from the World Bank, the cost of global supply chain adjustments caused by Sino-U.S. trade frictions in 2022 has exceeded US\$420 billion. Against this backdrop, trade protectionism has transformed from an occasional policy tool to a normalized tool for strategic competition between major powers. This upgrade trend has brought unprecedented challenges to companies in cost management and strategic decision-making.

Nevertheless, the current research still seems insufficient in responding to this phenomenon of escalation in theory. On the one hand, traditional trade protection theory focuses on short-term benefit compensation, which makes it challenging to explain the current policy logic of long-

term structural containment^[24]; on the other hand, although the study of trade costs includes obvious costs such as tariffs and transportation, there has been no in-depth and systematic analysis of the transmission channels of factors such as technical barriers, compliance reviews, and supply chain migration, which are called new costs^[22,28].

More importantly, most of the literature on corporate response strategies is limited to the case experience summary level and has not yet formed a collaborative framework covering multiple aspects of strategy, operation, and technology^[1,19]. In practice, Chinese export companies, especially small and medium-sized manufacturing companies, often face the problem of passive response due to an unclear understanding of the cost transmission mechanism. When some companies moved to Southeast Asia, their costs did not decrease but increased due to insufficient local support facilities. At the same time, some companies faced anti-dumping investigations due to ignoring compliance risks^[25], and some companies missed the critical period of technological upgrading due to misjudgment of policy direction^[12].

Based on this, this article attempts to answer three core questions: First, what are the underlying motivations for the escalation of trade protectionism? Compared with traditional trade protectionism, what new features does it show? Second, what are the key links in this transmission process, from introducing US policies to the cost surge for Chinese companies? Third, how should companies break through the limitations of fragmented response and build a strategic system with short-term resilience and long-term competitiveness?

The theoretical value of this study lies in several key aspects. It integrates factors like economic competition, political rivalry, and strategic checks and balances to explain trade protectionism during the escalation stage comprehensively. We also developed a multi-stage transmission model of policy-cost-enterprise to enhance the analysis of diverse enterprise cost responses in new trade theory. Furthermore, corporate strategies have evolved from a single perspective to a cooperative framework of strategy-operation-technology-policy, broadening the study of corporate behavior.

From practical perspective, this study provides cost warning and response strategies for export-oriented manufacturing and high-tech companies in the Sino-U.S. trade chain, helping them reduce trial and error costs amid policy uncertainties. It also serves as a reference for policymakers to evaluate whether trade protection policies have effectively supported local industries or led to increased costs for domestic consumers.

This study develops a framework for analyzing micro-enterprises in the economic and trade dynamics of the post-globalization era. It provides strategic recommendations for companies under cost pressures, highlighting the need to understand surface issues and deeper underlying causes.

2. Literature Review

2.1. The Causes and Characteristics of Trade Protectionism

The mercantilism school of the 16th to 18th centuries laid the foundation for traditional trade protection theory, emphasizing the accumulation of precious metals. It advocated for limiting imports and raising tariffs to achieve a trade surplus, viewing trade as a zero-sum game with conflicting national interests^[26]. In the 19th century, Friedrich List's (1841) theory of infant industry protection proposed that countries in early industrial stages should temporarily protect emerging industries with tariffs until they gain international competitiveness^[13]. This theory is vital for the trade policies of developing countries. In the 1980s, the theory of imperfect competition led Krugman (1984) and others to propose a strategic trade policy^[15]. They encouraged government intervention to help domestic firms gain monopoly profits in international oligopolies, especially in industries like aircraft manufacturing and semiconductors. Despite differing historical contexts and goals, these theories highlight the

short-term benefits of protecting domestic industries by limiting external competition and prioritizing "national interests first" in globalization.

Since the start of the 21st century, especially after the 2008 global financial crisis, trade protectionism has changed significantly. Research shows a fragmented understanding of its escalation characteristics. One key shift is from single tariffs to compound barriers, as Baldwin notes that WTO provisions have weakened traditional tariff barriers. This has led to the rise of hidden barriers, like technical standards and environmental regulations, creating a toolkit of "rules + technology + finance"^[21]. The U.S., Europe, and Japan have strengthened their influence over these rules through alliances on technical standards, extending trade protection from border measures to domestic rules^[5].

Furthermore, current literature on motivation escalation explores this issue through economics, politics, and strategy but often lacks systematic integration. Economically, competition between China and the United States has shifted from a complementary to an overlapping model, identified as a key driving force^[18]. Politically, the rise of populism has led to the instrumentalization of trade policy, where politicians gain support by highlighting the struggles of trade losers^[20]. Strategically, the U.S. aims to reduce China's influence through a de-risking strategy that involves decoupling and chain-breaking in key sectors^[32]. Despite these individual insights, comprehensive research on the interactions among these perspectives is lacking.

Third, the traditional view of trade protectionism emphasizes its short-term benefits, but recent studies suggest its long-term adverse effects are more significant. For example, Chad P. Bown found that domestic importers and consumers paid over 90% of the costs from U.S. tariffs, while technological blockades negatively impacted global innovation efficiency^[2]. This shift from an industrial protection tool to a strategic containment measure highlights the need for a theoretical response to the growing gap between policy goals and actual effects.

2.2. Trade Cost Transmission Mechanism

In traditional trade theory, trade costs are simplified as iceberg costs, representing the portion of goods lost during transportation, including transportation fees and tariffs^[34,35]. While this model simplifies theoretical analysis, it overlooks the real-world impacts of institutional, technological, and policy uncertainties on companies.

As protectionist policies have intensified, trade costs have expanded significantly. Institutional costs are now a key focus, as non-tariff barriers raise administrative and legal expenses for companies, which Baldwin calls trade barriers in the 21st century. Additionally, increased policy volatility has made uncertainty costs more apparent, forcing companies to raise precautionary inventory or delay investments^[13]. Furthermore, intensified technological competition has raised costs associated with technological barriers, as discrepancies in technical standards and intellectual property disputes lead high-tech companies to incur higher R&D and legal expenses^[2].

Current research focuses on the transmission mechanism of trade costs, especially the part around tariffs. Melitz's heterogeneous enterprise model provides a classic analytical method. Companies with higher production efficiency can use scale effects to share tariff costs and choose to export; companies with lower production efficiency may exit the market due to high costs. Subsequent research has explored this logic in more depth.

Research on the transmission mechanism of new costs has notable deficiencies. Firstly, the multiple links in the transmission path remain underexplored, with existing literature primarily focusing on isolated impacts, such as how policies affect corporate export decisions. The actual transmission usually involves a chain from policy end to supply chain end and finally to corporate profit end^[29]. Additionally, the varied effects of heterogeneous costs are often neglected. The Melitz model addresses productivity differences but fails to specify the impact mechanisms for different cost types. Lastly, the complexity of quantifying implicit costs hinders

research depth; unlike explicit costs like tariffs, institutional and uncertainty costs are harder to measure using public data, resulting in a focus on qualitative descriptions^[20].

3. Causes and Characteristics of the Escalation of Sino-US Trade Protectionism

3.1. Economic Level

The 2018 trade conflict between China and the United States marks a shift in global trade protectionism from occasional measures to long-term strategies. This rise in protectionism stems from intensified economic competition, changes in the political landscape, and evolving strategic dynamics^[6]. As the world's two largest economies, their interactions illustrate this complex driving force.

From the 1990s to 2010, China and the United States exhibited apparent complementarity. China used its low labor costs to become a global manufacturing center, exporting labor-intensive goods to the U.S.. At the same time, the U.S. focused on high-end manufacturing and services due to its technological leadership. Trade conflicts mainly arose in low-end industries, but the U.S. could alleviate these tensions through local tariffs, achieving interest compensation^[14].

However, after 2010, China's industrial upgrading speed accelerated, and the industrial overlap between China and the United States increased rapidly. According to OECD statistics, the trade competition index between China and the United States in the field of high-end manufacturing has risen from 0.32 in 2010 to 0.68 in 2022^[16]; in the field of digital economy, Chinese companies such as Huawei and Alibaba Cloud have increased their global market share from less than 5% to more than 20%^[11]. This shift from complementarity to competition directly threatens the United States' industrial advantage.

The US trade protection strategy has shifted from focusing on low-end industries to preventing the advancement of high-end industries. This change resulted in export restrictions on China's semiconductor and artificial intelligence sectors. Meanwhile, struggling US rust belt industries have prompted increased government pressure for protective measures, leading to a complex economic model of high-end containment and low-end protection.

3.2. Policy Level

The rise in trade protectionism is closely linked to tourism within the U.S. political landscape. Following the 2008 financial crisis, the gap in American society widened between the rich and the poor, leaving blue-collar workers feeling like victims of globalization. Manufacturing jobs were lost, and real wages stagnated. Populist politicians, such as Donald Trump, recognized this sentiment and used trade protection as a political tool to speak for workers. In the 2024 election, both President Biden and Trump highlighted the importance of being tough on China, making supply chain repatriation, and challenging China's unfair trade practices central campaign issues^[31]. This approach has shifted trade protection from focusing on economic policy to being used as an election tool.

At the same time, geopolitical conflicts and ideological differences have intensified the securitization of trade policy. In 2017, the U.S. National Security Strategy Report identified China as a strategic competitor for the first time, incorporating trade policy into the framework of national security. While these measures are trade-related, they effectively politicize and securitize economic issues to further the strategic goals of great power competition^[7].

3.3. Strategic Level

The United States seeks to promote trade protectionism to reshape the global value chain (GVC) around itself and reduce China's influence in key sectors. China has transitioned from an end

processor to a vital intermediate product supply hub, with its share of global intermediate product exports increasing from 4.1% in 2000 to 18.7% in 2022. China's influence in sectors like electronics and chemicals now exceeds that of the United States, granting it significant power as a chain leader^[17].

The United States has implemented Friend-shoring and Near-shoring strategies to move supply chains to trusted partners like Mexico, Vietnam, and India. A key initiative is the 2022 Indo-Pacific Economic Framework (IPEF) launch, aimed at enhancing supply chain resilience and excluding China from the regional value chain. The long-term goal is to reduce China's influence and ensure U.S. control over technological standards and regulations.

3.4. Analysis on the Characteristics of Sino-US Trade Protectionism

Table 1. Comparison between traditional trade protectionism and Sino-US trade protectionism

Characteristics	Traditional trade protectionism	Sino-US trade protectionism	Specific manifestations
Complex means	Based primarily on a single tariff barrier, with a few countermeasures and one safeguard, the policy tools are simple, and coordination is weak.	Combine tariffs, technical and regulatory barriers, and financial sanctions to create a more effective policy tool.	Tradition: 25% tariff on Japanese cars during the US-Japan trade war in the 1980s; Upgrade: "chip ban" (technical barrier) on Huawei in 2020
Wide range of fields	It focuses on goods trade; service trade and technical cooperation are rarely involved	It integrates the full life cycle of enterprise R&D, production, and sales by encompassing goods trade, services, data flow, and technical cooperation.	Traditional: Sino-US textile anti-dumping dispute in the 1990s; Upgrade: US restricts Chinese cloud computing services in 2023
Long-term impact	The policy aims for "short-term interest compensation," with a typical 1-3 years cycle and a one-time cost for enterprises.	The policy aims for long-term structural changes, focusing on reshaping the global value chain and reducing China's status as a chain leader. With a cycle of 5 to 10 years, businesses face ongoing strategic pressures.	Traditional: In 2002, the United States imposed a 30% tariff on imported steel; Upgrade: The 2022 Chips and Science Act stops companies from increasing advanced production in China for 10 years.
Core logic	The policy effects can be measured by limiting imports to support domestic industries through tariffs and increased profits.	Superimposing political rationality and "strategic rationality: Serving the needs of populist elections and great power competition.	Tradition: 2009 US special safeguard case against Chinese tires; Upgrade: 2023 US and the Netherlands jointly restrict the export of ASML lithography machines to China

Current Sino-U.S. trade protectionism has evolved beyond the traditional model of the 20th century, which relied on tariff barriers and short-term interests. Now, it employs complex strategies with long-term impacts. This shift has moved from tactical defense to strategic

offense, focusing on weakening China's competitiveness and leadership in the global economic and trade system^[10].

First, the policy tools have shifted from simple tariffs to a more complex framework. Traditional trade protectionism relies on tariffs with limited impact, while the current U.S. strategy toward China employs a multi-faceted approach that includes tariffs, technology blockades, and financial containment. These tools work together, using measures like technical standard restrictions and linked supply chain reviews, to create a comprehensive pressure strategy.

Second, the scope of action has broadened from trade in goods to the entire industrial chain. Traditional protection measures focused on border goods flow, but current policies now impact R&D cooperation, technology transfer, and cross-border data, affecting the entire enterprise life cycle^[23]. This domestic rule-based trend complicates market access and reshapes global industrial chain governance through long-arm jurisdiction.

Third, the strategic focus has shifted from short-term balance to long-term containment. Currently, protectionism is marked by generational competition, with policies aimed at long-term goals like the widening technology generation gap and fragmented standards. Consequently, businesses face immediate cost shocks and must manage systemic risks from divergent technology paths and market fragmentation.

The shift in strategic thinking has expanded the effects of Sino-U.S. trade frictions beyond traditional boundaries. Companies must manage direct costs like tariffs and build long-term capabilities to handle risks such as supply disruptions and regulatory changes. Adapting to the restructuring of the global economic and trade system requires diversification. Table 1 outlines the key features of Sino-U.S. trade protectionism.

4. Enterprise Response Strategies under Trade Protectionism

4.1. The Transmission Path of Trade Costs from the Policy Side to the Enterprise Side

The trade costs resulting from heightened trade protectionism are not just a one-time shock; they gradually impact businesses through a process of "policy shock → cost increase → enterprise response → market feedback." This cyclical interaction among policies, costs, enterprises, and the market illustrates how trade costs are transmitted from policies to businesses, highlighting enterprises' complex pressures.

The policy shock initiates transmission by increasing the marginal costs for Chinese companies exporting to the United States through tariffs, technology bans, and anti-circumvention investigations. These policies are marked by their precise targets and concentrated impact.

When companies face cost pressures, they often adjust their supply chains to mitigate the effects of policy changes^[9]. However, this passive migration can lead to hidden costs, known as secondary transmission. While these adjustments can help avoid some explicit costs, they often introduce new hidden expenses due to inadequate infrastructure and increased management complexities, ultimately transferring rather than eliminating logistics, quality, and labor costs. Companies adopt diverse response strategies based on their resources, resulting in active transmission. A defining feature of this stage is enterprise heterogeneity. Large multinationals utilize their global presence and technology to optimize costs through multi-regional production and technology substitution.

The behavior of enterprises leads to changes in market structure, which drives policy adjustments in a cycle of "policy → cost → enterprise → market → policy." For example, in 2023, the market share of domestic home appliance brands in the U.S. rose from 35% to 42%. However, limited production capacity caused prices to increase by 20%. This situation, marked by rising consumer costs and no benefits to local industries, led the U.S. government to

implement tariff exemptions for some small home appliances to help reduce inflationary pressures.

4.2. Multi-dimensional Analysis of Enterprise Response Strategies

4.2.1. Strategic Dimension

To reduce reliance on the US market and China's domestic supply chain, company can focus on market diversification and regional layout^[33]. Historically, US exports have accounted for 16% to 18% of China's total exports, leaving companies vulnerable to tariffs and technology bans. The company should mitigate these risks by exploring new markets and tapping domestic potential. This can be achieved by expanding into emerging markets like ASEAN, the Middle East, and Latin America through initiatives such as the RCEP and Belt and Road. The dual circulation strategy also encourages companies to boost domestic demand through product upgrades and brand development.

At the regional level, Chinese companies face challenges from the U.S. restructuring the global value chain through friendly shore and nearshore outsourcing^[8], which weaken China's central role. To adapt, they must move beyond the "local production + global export" model by establishing production bases in nearshore areas. This regional strategy can help create a global node network, allowing for tariff avoidance and closer market access.

4.2.2. Operational Dimension

Traditional supply chains focus on efficiency first, using a single supplier and long-distance transport to cut costs. However, this fragile efficiency is vulnerable to disruptions from external shocks, especially during policy uncertainty. To mitigate this risk, companies should adopt a resilience first approach with a "core + backup" supply chain system that prioritizes quality stability and risk management. They should leverage a network of high-quality local suppliers in China, supported by its robust industrial infrastructure, to maintain quality and efficiency in critical processes.

To address rising costs from tariffs and compliance, companies should move from a mindset of bearing pressure alone to one focused on sharing costs through collaborative negotiations and process optimization. By building a resilient supply chain and practicing active cost-sharing, companies can manage short-term pressures and navigate trade protectionism more effectively. This strategic approach enhances their core competitiveness in the evolving global value chain.

4.2.3. Technology Dimension

In the context of rising trade protectionism, high-tech companies are increasingly facing significant challenges from technological barriers and hidden costs. Unlike explicit costs such as tariffs, hidden costs are often well-concealed yet far-reaching. Dependence on technology can lead companies into a long-term, passive state where they feel stuck^[30]. Additionally, differences in standards can increase market access costs due to compliance requirements.

To address these challenges, companies must shift their technology sector strategy. This involves moving away from a passive compliance mindset and striving for independent technological breakthroughs. Companies should aim to redefine industry standards by dominating rules, allowing them to transition from being "constrained by rules" to becoming leaders in setting those rules.

4.2.4. Policy Dimension

Frequent trade protectionist policies and rapid regulatory changes have increased the risk of policy misjudgment for businesses. Companies may unintentionally violate compliance requirements or miss key opportunities due to a passive response. To tackle this issue, it is crucial to implement a two-way participation mechanism that integrates compliance management with policy engagement^[27]. By actively adapting to rules, businesses can reduce

violation costs while influencing these rules to create a more favorable environment. This approach aims to minimize policy risks and maximize policy benefits.

Compliance management is the first line of defense against policy risks. With the rise of trade protectionism, enterprises must establish a dynamic and professional risk control system. Engaging in policy discussions is essential for moving from passive adaptation to active influence.

Businesses can unify their demands through industry associations or utilize international mechanisms like the WTO to protect their interests. This two-way participation shifts enterprises from being rule acceptors to rule adapters and influencers. Effective compliance management helps reduce the risk of violations and the potential for losses, offering an institutional buffer against the challenges of trade protectionism.

5. Conclusion and Inspiration

This study focuses on the transmission mechanism of Sino-US trade costs and corporate response strategies under trade protectionism escalation. Through the logical chain of "motivation identification → mechanism analysis → strategy construction," the following core conclusions are drawn:

First, the escalation of trade protectionism is a compound result of economic competition, political game, and strategic containment. From the economic dimension, Sino-US industrial competition has shifted from complementarity to overlap, and the United States has attempted to suppress China's industrial upgrading through trade protection; Populism and geopolitical conflicts have led to the instrumentalization and securitization of trade policies. The United States aims to restructure the global value chain and diminish China's influence in key sectors, resulting in trade protectionism that is complex, far-reaching, and long-lasting.

Second, the transmission of trade costs is a dynamic process that can be understood through a four-stage model: "policy shock → supply chain adjustment → enterprise response → market feedback." A policy shock increases explicit costs, prompting businesses to adjust their supply chains, which incurs implicit costs. Companies respond differently based on their characteristics, and the market ultimately reacts to these adjustments, creating a cyclical flow: "policy → cost → enterprise → market → policy." Notably, the cost pressures and response strategies vary significantly across different industries and business sizes.

Finally, enterprises need to build a "strategy - operation - technology - policy" coordinated response strategy, considering short-term stop loss and long-term resilience. The strategic dimension reduces single dependence through market diversification and regional layout; the operational dimension improves resilience through the "core + backup" supply chain, and shares cost through upstream and downstream negotiations and process optimization; the technical dimension breaks through the stuck neck dependence through independent innovation, and reduces compliance costs with standards; the policy dimension reduces misjudgment losses through compliance management, and strives for a more favorable environment through policy games. The synergy of the four is the key to the "resilient growth" of enterprises in a long-term and complex policy environment.

In summary, this study provides a theoretical framework for understanding the micro-impact of escalating trade protectionism and practical guidance for formulating corporate response strategies. In the future, as the global economic and trade landscape continues to evolve, in-depth research on this topic will have more important theoretical value and practical significance.

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