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## TỪ CUỘC CHIẾN THƯƠNG MẠI MỸ - TRUNG TỚI SỰ DÂNG CAO CỦA CHỦ NGHĨA BẢO HỘ MẬU DỊCH THƯƠNG MẠI TRONG MỘT NỀN KINH TẾ MỞ VÀ MỘT SỐ KHUYẾN NGHỊ

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### Tóm tắt

Nền thương mại quốc tế những thập kỷ gần đây đang phát triển với tốc độ chóng mặt bởi những nỗ lực không ngừng nghỉ của các quốc gia để thúc đẩy tự do thương mại cũng như loại bỏ các rào cản kinh tế. Rất nhiều nước đang phát triển đã tận dụng cơ hội tăng trưởng kinh tế này, mở cửa đất nước để tăng cường giao thương và đạt được những thành quả xứng đáng. Mặc dù vậy, đi ngược lại với xu hướng tiến bộ này chính là sự gia tăng ở ngưỡng cảnh báo của chủ nghĩa bảo hộ mậu dịch đang lây lan trên diện rộng, và ví dụ tiêu biểu nhất chính là cuộc chiến thương mại Mỹ - Trung. Bài nghiên cứu đi vào phân tích sâu các vấn đề của cuộc chiến thương mại giữa hai cường quốc này, bao gồm nguyên nhân, hậu quả và những biện pháp mà hai bên đã sử dụng. Từ cuộc chiến, bài viết đi tới khái quát vấn đề - sự gia tăng của chủ nghĩa bảo hộ mậu dịch trên phạm vi toàn cầu, những hệ lụy và nguyên nhân, trong đó có thể kể đến là những động thái mờ nhạt của tổ chức Thương mại Thế giới WTO - tổ chức duy nhất giải quyết tranh chấp thương mại quốc tế, trước sự lây lan của chủ nghĩa bảo hộ mậu dịch gây ra bởi cuộc chiến thương mại. Nhóm tác giả từ đó đưa ra một số đề xuất nhằm thúc đẩy quá trình tổ chức Thương mại Thế giới giải quyết với xu thế thế cạnh tranh không lành mạnh này, đồng thời có những khuyến nghị trong cả ngắn hạn và dài hạn đối với Việt Nam, một đất nước có nền kinh tế mở khi phải đứng trước làn sóng dâng cao của cuộc chiến thương mại Mỹ - Trung.

**Từ khóa:** nền kinh tế mở, chủ nghĩa bảo hộ mậu dịch thương mại, chiến tranh thương mại Mỹ - Trung.

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# FROM THE U.S - CHINA TRADE WAR TO THE RISE OF TRADE PROTECTIONISM IN A GLOBALIZED ECONOMY AND SOME RECOMMENDATIONS

## Abstract

Recent decades have seen the rapid growth of international trade with collective efforts taken to support open trade between countries and reduce trade barriers. Many developing countries have opened their own economies to take full advantage of the opportunities for economic development through trade and have certainly obtained some rewards. However, going backward from this positive trend is the increase of the protectionist movements worldwide and the most typical illustration for this trend is the U.S. - China Trade war. By employing the analysis, synthesis, and evaluation research technique to obtain a comprehensive knowledge of the trade war between the United States and China in 2018, our study reached specific conclusions about the causes, consequences and measures taken by both sides during the trade war. Then, the research will go into detail about the global rising of protectionism and what it does to the economy as well as the causes including the World Trade Organization's faint reactions to the rise of protectionism in order to identify the critical issues that it must address to reclaim its position as the only organization dealing with international trade laws. And regarding Vietnam, as an open-market developing country, what measures the nation should take to expand its market in a sustainable manner, achieve fundamental growth, not only in the short run but also in the long run as well.

**Keywords:** globalized economy, trade protectionism, the U.S – China trade war.

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## 1. Literature review:

Three decades of ongoing trade barrier liberalization and rapid trade development have resulted in a collection of empirical research with a strong focus on the macro and micro (firm) consequences of trade liberalization. However, the post-crisis rises in protectionism, as well as rising anti-trade and anti-globalization sentiment linked to a sustained slowdown in trade flows, is shifting the conversation to the potential consequences of increased protectionism.

The economic impact of trade wars in general, and in the case of the United States and China in particular, is a large portion of the current corpus of literature.

An important study published by Johnson (1953), was the first to conceptualize the *beggar-thy-neighbor*<sup>2</sup> motivation for tariff rises, demonstrating that in a trade war, a country might benefit by imposing an optimum tariff, even if others react. Johnson's results were further expanded using more generic assumptions such as imperfect competition (Brander and Barbara, 1984), particular tariffs (Horwell, 1966), and quotas (Eatnon and Grossman, 1986). Ossa (2014) was the first to experimentally assess the effects of optimum tariffs and a global trade war. The author models tariffs that manipulate terms of trade; shift profits away from countries; and protect politically influential industries, using a multi-country, multi-sector general equilibrium model with inter- and intra-industry trade and special interests. The author estimates that world trade war tariffs average 63 percent, resulting in welfare losses of 2.9 percent if implemented.

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<sup>2</sup> Beggar-thy-neighbor refers to economic and trade policies that a country enacts that end up adversely affecting its neighbors and/or trading partners. Protectionist barriers such as tariffs, quotas, and sanctions are all examples of policies that can hurt the economies of other countries.

Regarding the U.S - China trade war, Sharmila Kantha's publication (2018) "*The US-China trade confrontations and Implications for India*" examines the effects of recent trade hikes by both countries on the other's imports, analyzes the US Trade Representative's report on the exchanges, and finally discusses the specific implications for India in terms of Trade and related factors. According to Antoine Bouet and David Laborde (2017) in an IFPRI Discussion Paper, there is no scenario in which the US government increases domestic welfare or GDP. In the United States, there may be value-added increases in certain areas, but they are minor and at the disadvantage of other sectors. Gonsalves et al. (2018) has concluded that the long-term impacts of these trade escalations on welfare are detrimental for both the U.S and China, with mounting evidence of a "*Trade War*". Johannes Bollen, Hugo Romagosa (2018), believes that the costs are exacerbated when the fight extends beyond the EU and China to other OECD countries, notably Canada and Mexico, who have substantial trading relations with the U.S. China will be the country that suffers the most from these trade battles in all scenarios.

The remaining research focuses on the consequences of more sporadic or ad-hoc rises in protectionism. Kutlina-Dimitrova (2017) assesses the impact of the Russian import ban on exports of agri-products from the European Union, the United States, Australia, Norway and Canada. The author shows that these protectionist measures weigh heavily on Russian consumers whose welfare declines by more than US\$5.8 billion. Using an econometric framework and changes in the incidence of protectionism documented in the Global Trade Alert database, Evenett and Fritz (2015) estimate that protectionist measures implemented between 2009 and 2013 slowed LICs exports growth significantly costing them an equivalent of about one-third of the total exports. Bouet and Laborde (2010) used the MIRAGE global dynamic CGE model to predict the impact of a scenario involving tariff increases in key economies up to WTO bound rates in an empirical study. The authors demonstrate that a rise in global protectionism results in a 9.9% drop in global trade and a US\$353 billion drop in global wellbeing, with the latter being more evident in many poor nations.

Most of the previous studies with related subjects approach trade protectionism directly without any links to WTO, meanwhile our study suggests the degradation of this international organization has paved the way for trade protectionism to rise. Moreover, Covid-19 pandemic is an important factor we inspect to give a more insightful and up-to-date research that stands out from other publications. Also, we have a closer look at the situation of Vietnam as the prior researches regarding this topic give little concern to our nation.

## **2. Related terms**

### ***Trade protectionism***

According to Investopedia Team (2021), protectionism is a term used to describe government policies that limit foreign trade in order to benefit domestic businesses. Protectionist policies are typically aimed at boosting domestic economic activity, but they can also be implemented to address safety or quality problems. Tariffs, subsidies, quotas, and currency manipulation are the four main tools utilized in trade protectionism (Amadeo, 2021).

While the Corporate Finance Institute (2020) states that politically motivated trade protectionism might lead to trade isolationism. Protectionism may help domestic production and business in the short term, but it often harms the people and entities it is supposed to protect in the

long run by reducing economic growth and causing price inflation, making free trade a superior alternative.

### ***Trade war***

A trade war is an economic conflict between countries (Corporate Finance Institute, 2019). It usually begins when the government of one country considers that another is participating in unfair trading practices that are damaging the first country's markets. They may impose a trade barrier, including tariffs and non-tariff measures, in efforts to guard their own industry or create jobs. As each country sets up a trade barrier, the other will counter with a new policy, escalating the conflict into a trade war.

Trade conflicts are frequently viewed as a side effect of protectionism. According to Chen (2021), in general, a country will implement protectionist measures to defend local industries and employment against foreign competition. A trade war in a global economy can be tremendously detrimental to both consumers and businesses, and the contagion can spread to affect many sectors of both economies.

### **3. The U.S - China trade war**

The first section of this paper aims at finding out what has initiated the U.S - China trade war, how the event has developed and a series of consequences that the global economy has to face, and to wrap up the first part, the paper will cover some major sanctions that the two war-taking countries have imposed on each other.

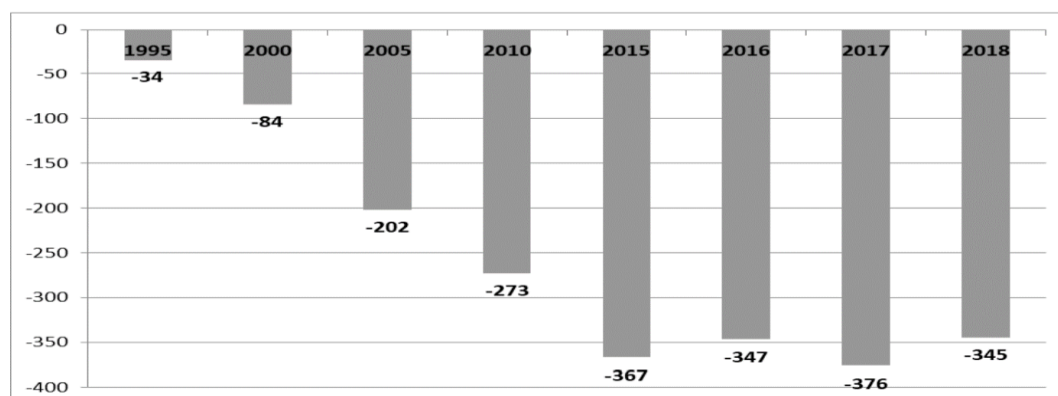
#### ***3.1. Causes of the trade war***

##### ***3.1.1. Direct causes***

##### ***The U.S has a large trade deficit with China***

The United States and China are the two largest economies in the world as well as each other's biggest trading partner. However, The United States has had a big and growing trade deficit with China in recent years, which became a key political issue in the 2016 presidential election.

In recent years, the United States has regularly imported more from China than it has exported to the country with the trade imbalance between the United States and China increasing to \$345.2 billion by 2018. This state has been illustrated in the following graph (*Figure 1*):



**Figure 1.** Trade deficit between the U.S and China over the 14-year-period (Note: all figures are in billions of U.S dollars)

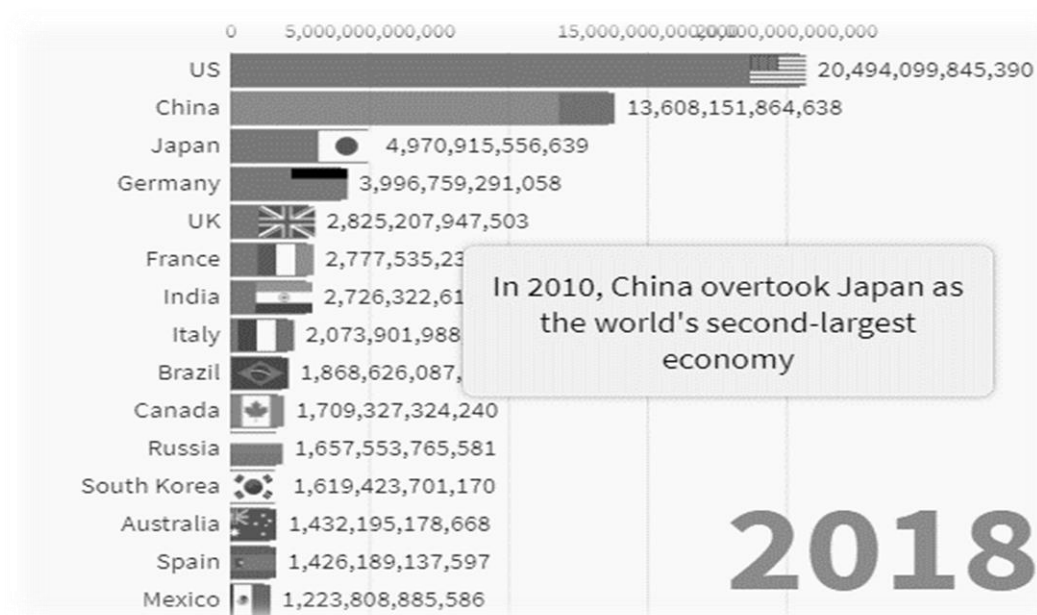
**Source:** United States Census Bureau

### ***Serious piracy in China***

On top of that, the USA accused China of continuing a state-backed campaign of intellectual property and technology theft. According to U.S Trade Representative Robert E. Lighthizer, China has a policy of “*forced technology transfer*” and “*state capitalism*”, which includes purchasing U.S technology companies and acquiring technology via cybertheft<sup>3</sup> (Rogin, 2018). Beijing requires foreign companies to share their intellectual property in exchange for access to the Chinese market. The U.S economy lost between \$225 billion and \$600 billion as well as thousands of jobs as a result of this (Pham, 2018).

#### ***3.1.2. Indirect causes***

### ***The competition for the world’s number one slot***



**Figure 2.** Top 15 largest national economies in 2018 (Note: all figures are in billions of U.S dollars)

**Source:** World Bank, OECD

After joining the World Trade Organization (WTO)<sup>4</sup> in 2001, China’s export-led development has bloomed, with its share of the U.S economy more than tripling from 12% in 2000 to over 40% in 2010. Many consider this bilateral relationship to be the most important consequence in the world. Therefore, the rivalry between the United States and China has risen steadily over the years, as America’s economic strength is declining and China, with its rising growth rate, is highly ambitious in dominating the world’s economic power. The above graph (*Figure 2*) has shown the top 15 countries regarding their economic size.

### ***The rise of protectionism***

<sup>3</sup> Cybertheft refers to the act of using the internet to steal someone’s property or to interfere with someone’s use and enjoyment of property.

<sup>4</sup> The World Trade Organization (WTO) is the only international organization dealing with the global rules of trade. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.

In recent years, the rise of protectionism has been one of the causes of the U.S - China trade war, especially when The United States under the Trump has taken the “*America First*” stance, promised to prioritize American jobs and workers. Protectionism aims to enhance your country’s industry and protect it from outside competition by imposing restrictions such as tariffs. The Trump administration claims the U.S relies too much on other countries for its products, such as metals. Therefore, actions are taken by the U.S, with the thinking that it will boost the U.S domestic industries. The case with China is no exception when China is one of the biggest trade partners of the U.S.

### ***3.2. The progression of the trade war***

The formal start of the trade war is thought to have been March 23, 2018, when Donald Trump signed the “*Presidential Memorandum Targeting China’s Economic Aggression*” as well as imposing steel and aluminum tariffs. However, problems in the United States and China’s economic relations have already emerged and been put into the discussion before. In 2017, the World Trade Organization (WTO) declared China the status of a market economy<sup>5</sup>, which provoked objections from the United States since it reduced the scope for protectionism against Chinese firms. This part of the paper will elaborate more on the process of the trade war (the data has been retrieved from *US-China Trade War: Causes and Outcomes* (Kapustina, et al., 2020), and *What is the US-China trade war?* (SCMP Reporters, 2020).

#### ***Chronology***

In the period between April and May 2017, negotiations at the highest levels to address trade imbalances were held embarking on a 100-day strategy for trade discussions. Imports of steel and aluminum have been subjected to scrutiny. The discussion ended without clear progress.

In May 2018, The United States issued a public announcement, as well as imposing following global safeguard tariffs on Chinese imports, specifically 30% on solar panels; 20% on washing machines; 25% on steel imports; 10% on aluminum imports, aiming at restricting investment in key technology sectors, IT and machinery. To retaliate, China imposed 15-25% tariffs on 128 product categories including fruit, wine, seamless steel pipes, pork and recycled aluminum, along with a 178.6%-anti dumping-duty on sorghum imports from the U.S.

Throughout 2018 and most of 2019, U.S tariffs rocketed just high as \$500 billion dollars, straining the U.S importers of Chinese inputs. Chinese tariffs, particularly on American agricultural goods like soybean, began to depress farmers, and freeze them out of the lucrative Chinese market.

The tariff war pauses when progress seems to be made toward the end of 2018, but throughout 2019, tensions rise and fall around whether the deal appeared to be coming together. As in common trade negotiations, the deal collapses when it seems closest to getting finalize, perhaps out of frustration and to create chances to restart talks between the two countries

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<sup>5</sup> A market economy is an economy in which supply and demand drive economic decisions, such as the production of goods and services, investments, pricing, and distribution. This type of economy promotes free competition among market participants.

Finally, on January 15th, 2020, the U.S and China signed the long-awaited phase one trade deal at the White House, easing 18-month of extreme trade tensions. Until now, the trade war is still going on, though at a slower rate than before.

### ***3.3. The economic impacts of the trade war***

#### ***3.3.1. Two-sided losses***

Both sides have suffered economic losses as a result of the trade war, which has resulted in trade flows diverting away from China and the United States. As described by Heather Long at the Washington Post (2020), the economic growth in the United States has slowed, company investment has stalled, and businesses have not hired as many workers. Many farmers have gone bankrupt across the country, and the industrial and freight transportation industries have reached lows not seen since the previous recession. Trump's actions amounted to one of the most significant tax increases in recent history. A 2019 report by the Federal Reserve Bank of New York and Columbia University estimated that the trade struggle had cost the U.S economy \$316 billion by the end of 2020, while more recent research has found that the U.S companies lost at least \$1.7 trillion in stock prices due to U.S tariffs levied on China imports (Hass & Denmark, 2020).

In China, companies realized too much dependence on China was a bad idea. With all of China's disputes, operating factories there is not cheap anymore. Consequently, corporate leaders are losing confidence in China, they want to move sourcing and manufacturing out of China.

In the meantime, the U.S goods trade deficit with China grew further in 2018, reaching a new high of \$419.2 billion (SCMP Reporters, 2020). The trade imbalance has decreased to \$345 billion by 2019, approximately the same amount as in 2016, owing to lower trade flows (SCMP Reporters, 2020). It is indeed worth noting that, while the U.S trade deficit with China shrank, the country's total trade imbalance did not. Trump's unilateral tariffs on China redirected trade flows away from China, resulting in a rise in the U.S trade deficit with Europe, Mexico, Japan, South Korea, and Taiwan (SCMP Reporters, 2020).

#### ***3.3.2. Influence on global trade***

Global trade is heavily affected due to trade tensions lately. In the main markets, manufacturing purchasing manager indices have deteriorated significantly, and export order levels have been low. The trade war's uncertainty and diminished confidence are hurting the global economy more than the immediate effects on trade flows suggest. The worsening investment outlook is a prime illustration of this. According to the Devarajan et al. (2018), the trade war has already cost the world 450 billion USD in 2018, accounting for 13 percent of U.S imports and 2.5 percent of global GDP.

#### ***3.3.3. Multifaceted impacts of the trade war on developing countries***

##### ***Short-term opportunities for developing countries***

Nevertheless, the trade war has created several opportunities for developing countries due to a significant change in the supply chain of developed countries. To escape high tax rates, both the U.S and Chinese firms have begun to seek alternative sources of supplies from nations with more stable economic and political situations. According to a study conducted by the American Chambers of Commerce, three out of every four American firms in China stated that increases in the U.S and Chinese tariffs are having a detrimental effect on the business. According to the

same poll, around 40% of respondents are contemplating or have already transferred manufacturing plants outside of China, primarily to other Asian nations or Mexico (Vilmi, Kerola & Ikonen, 2019).

Notably, Vietnam has benefited the most from this change, Donald Trump in an interview said that Vietnam was “*almost the single worst abuser of everybody*” (Guardian Staff and Agencies, 2019), with exports to the United States increasing 35.6 percent in 2019 as Chinese firms relocated operations offshore to avoid taxes. Malaysia, Thailand, and South Korea profited as well. Thailand announced a package of additional initiatives in September 2019 to attract manufacturers impacted by the trade war. The current environment, on the other hand, has only exacerbated a trend of Chinese manufacturers relocating some operations overseas in search of cheaper land and labor - manufacturing wages in Vietnam are a third of what they are in China. As a result, China is moving up the value chain. This trend, accelerated by the trade war, is beneficial for both Vietnam and China. Meanwhile, China’s move up the value chain will free up former the industrial land outside of cities for more economic and environmentally friendly applications. Millions of people continue to migrate to China’s cities, and converting the industrial property to residential and commercial use is a lucrative business (Smith, 2020).

### ***In terms of the long run***

However, Southeast Asia is an integral part of the global production chain, in which the economic superpowers: the U.S, China, the European Union, Japan, and India all occupy important positions. Without those value chains, ASEAN<sup>6</sup> would lose its role as a catalyst in the global economy. And the imbalance brought about by the U.S - China trade war will hurt these regions more than it benefits.

Therefore, the economic growth rate of ASEAN countries has been affected in a downward direction such as Thailand, Singapore, Indonesia, Malaysia, Philippines. The average growth forecast for 2019 is 4.3% (down 0.3%) (Trần, 2021). In addition, Singapore, Malaysia, Thailand, Indonesia, the Philippines, and Vietnam, which are members of the global supply chain, will be affected by the trade war. The amount of goods shipped by ASEAN countries to China has been sharply reduced due to the impact of this trade war.

### ***3.4. Sanctions the two nations imposed on each other***

The U.S - China trade war is an all-out competition between the two superpowers, so each side applies not only trade measures but also non-commercial measures to attack each other. The method’s implementation is determined by the advantages and disadvantages that each side possesses.

#### ***3.4.1. The U.S measures:***

##### ***Trade measures:***

The United States imported huge amounts of products from China (\$501 billion in 2017) (Bạch, 2020). As a result, it is natural that the primary tool of the U.S is to slap heavy taxes on Chinese goods. Following the first move to impose a 25 percent tariff on \$34 billion worth of Chinese imports, the administration announced it would continue to impose 25 percent tariffs on

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<sup>6</sup> ASEAN officially the Association of Southeast Asian Nations, is an economic union comprising 10 member states in Southeast Asia.



\$16 billion worth of Chinese imports, then impose 10 percent tariffs on an additional \$200 billion of Chinese imports each year (Bach, 2020). Ultimately, the total U.S tariffs applied exclusively to Chinese goods is \$550 billion (Bach, 2020).

#### ***Non-trade measures:***

Besides import tariffs as the main method, the U.S will also use non-trade measures to pressure China.

*Chinese investment restrictions:* One of the measures is to restrict Chinese investment. The administration is planning to limit Chinese investment in some key U.S industries. Through the Committee on Foreign Investment in the United States (CFIUS), the U.S government seeks to prevent foreign companies from acquiring U.S companies. Businesses with 25% or more Chinese ownership would be prohibited from acquiring the U.S technology companies such as aircraft, drones, and autos under the plan. The plan's main focus is on China's "*Made in China 2025*<sup>7</sup>" initiative, which is a long-term strategy aimed at dominating future sectors.

*Intensive export controls:* The U.S also plans to tighten export controls to prevent U.S companies from transferring technology to China. The U.S administration is drafting export regulations aimed at preventing high-tech from moving to China. However, the U.S imposition of investment restrictions could block access to some foreign capital, especially Chinese investment in the United States (Trần, 2021).

#### ***3.4.2. Chinese measures:***

##### ***Trade measures:***

China imports from the U.S (\$131 billion in 2017) are much less than the U.S imports from China (\$506 billion). Therefore, the tariff tool on imports from the U.S is still applied by China, but the effect is quite limited. Moreover, China is reluctant to impose high import duties on essentials (a large part of which imports from the U.S) because it does not want its citizens to pay more for them. On July 6, 2018, China imposed import tariffs on 545 U.S goods, over 90 percent of which were agricultural products. However, imposing high agricultural import tariffs will also hurt China, as it increases food prices in the Chinese market. Hence, total Chinese tariffs applied exclusively to U.S goods: \$185 billion (Trần, 2021).

***Non-trade measures:*** Besides trade measures, China will take many non-trade measures in response to the U.S such as:

*Exchange rate policy:* The U.S government regularly accuses China of currency manipulation to gain an advantage in trade with the United States. Over the years, the Chinese government has repeatedly devalued the yuan to create competition for Chinese exports compared to the United States and other competitors.

*Use U.S Treasuries:* China is currently the largest U.S creditor, holding large amounts of about \$1.2 trillion worth of U.S Treasuries purchased over the years. This amount of bonds is enough to affect the U.S bond market. China could suddenly sell large amounts of U.S government bonds (or just signal that it will reduce its purchases of U.S bonds in the future). That would cause

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<sup>7</sup> "*Made in China 2025*": is a national strategic plan and industrial policy of the Chinese Communist Party to further develop the manufacturing sector of the People's Republic of China. The goals of this plan include increasing the Chinese-domestic content of core materials to 40 percent by 2020 and 70 percent by 2025.

long-term interest rates in the U.S to rise, negatively affecting the government and the U.S homebuyers, as borrowing fees rise. However, if the measure is applied, China will also suffer, as the value of U.S bonds it holds is reduced.

*Issuing against the U.S onto the WTO:* As soon as the U.S imposed tariffs of 25% on steel and 10% on aluminum imports on March 23, 2018, China filed a lawsuit against the U.S at the WTO accusing the U.S of implementing trade protectionist measures under the guise of national security, violating the principle of nondiscrimination (MFN treatment<sup>8</sup>) and pledging to reduce tariffs under WTO rules. On July 6, 2018, shortly after the U.S imposed additional tariffs of 25 percent on \$34 billion worth of Chinese imports, China also filed a lawsuit against the U.S at the WTO. However, China's case against the U.S to the WTO is unlikely to have a real effect for the following reasons: As the world's largest economy that has strongly supported free trade, the U.S has played a key role in the WTO's birth and existence (Tien Giang Department of Foreign Affairs, 2020). Trump has threatened to withdraw the United States from the WTO, even ordered to draft a bill to trigger the process. A U.S withdrawal from the WTO would take a toll on the organization. The WTO is where 164 economies around the world agree on the implementation of integration commitments and resolve disagreements, but it is currently powerless in the dispute between the United States and China.

*Administrative measures:* Delay customs procedures. China has used such a measure on many U.S imports, causing them to stagnate during times of strained bilateral relations (Lê, 2018).

#### **4. The rise of trade protectionism**

In a wider context, measures taken by both governments in the U.S - China trade war are the most obvious signs showing the practice of protectionism in developed countries. This second part of the paper presents how protectionism is gaining popularity worldwide, what its impacts are and why this trend has spread in recent years.

##### **4.1. Rising trade protectionism on a global scale**

Though rising protectionism has been recorded since the financial crisis 2007-2008, it was in 2018 when the U.S - China trade war broke out that marked the point protectionist movements spread both intensively and extensively on a global scale.

##### ***Trade tension among countries***

Besides the main weapon being import tariffs against Chinese goods during the trade war, Donald Trump also promoted his “*America First*” policy by introducing a series of U.S tariffs for goods from every country inclusive of its largest trading partners like Canada, Japan, etc. Some typical examples are 30% - 50% tariff on solar panels and washing machines, 25% tariff on steel, and 10% tariff on aluminum. In response, many countries showed their discomforted manner and struck back immediately with retaliatory tariffs focusing on United States goods. Canada, with the official statement “*We will not back down*” said by the Canadian foreign minister in June 2018, imposed a total tariff worth of \$12,6 billion on U.S goods (Rooney, 2018). The European Union subjected \$3 billion worth of U.S goods to a 25% tariff and filed a lawsuit against the U.S onto the

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<sup>8</sup> Most-favoured-nation (MFN): treating other people equally, under the WTO agreements, countries cannot normally discriminate between their trading partners. It grant a member a special favour (such as a lower customs duty rate for one of their products) and the nation has to do the same for all other WTO members.

WTO (Sant & Chappell, 2018). Mexico also answered the call by implementing retaliatory tariffs on U.S steel, cheese, pork, whiskey, and other goods that cost approximately \$3 billion (Swanson & Tankersley, 2018). These “*an eye for an eye*” tariff applications clearly indicated that protectionism is not limited to specific nations but becoming a global issue.

### ***Signs of weakened globalism***

Tariff wars are not the only indicator of protectionism, withdrawals from blocs or free trade agreements are registered recently. One evident case that should be mentioned first is Brexit<sup>9</sup> - officially took effect in 2021 January though lasted for some years before. The United States has also withdrawn from TPP – Trans-Pacific Partnership Agreement and threatened to do the same with NAFTA - a bloc consisting of 3 member states in North America. India, despite being a drafting committee since 2011, chose to back down from RCEP<sup>10</sup> talks in 2019 and obviously, stood out from 15 members of this agreement when it was officially signed in 2020. Argentina walking out of MERCOSUR - a free trade agreement for South American countries - is also another noticeable event. The withdrawal from trading blocs does not only hinder liberalization of trade but also facilitates these nations to adopt their own protectionist measures more easily as they need not follow rules of those agreements, which ultimately created space for protectionism to thrive broader and deeper.

## ***4.2. Impacts of trade protectionism on the world and developing countries' economy***

### ***4.2.1. Impacts on the global economy as a whole***

The post-crisis period had seen an increase in the number of protectionist measures, at around 800 new harmful interventions implemented yearly as revealed by Evenett and Fritz (2015), and the use of “murky” form of protectionism<sup>11</sup> has also been on the rise, although the most common policies are still traditional trade barriers such as an increase in import tariffs, which accounted for close to 25% of new barriers to trade introduced since 2009, and others such as anti-dumping measures, add up to 10% of all new measures (Kutlina-Dimitrova & Lakatos, 2017).

As a result, international trade has been going through a difficult period, with a current ratio of 58% of world GDP, comparatively lower than the ratio of 61% back in 2007-2008, before the financial crisis (Lill, 2019).

The WTO has been warning about this continuing trend in the global economy. The G20 countries, during the review period between October 2016 and May 2017, introduced 42 new trade-restrictive measures, among which new or increased tariffs, customs regulations were the most prevalent (Lill, 2019). In 2017, around 355 harmful measures were implemented. The situation continued to escalate from 2018 to 2020 with the U.S - China trade war, which may make the global economy, which has already been in a slow-growth, suffer an 0,6% loss of GDP in 2021,

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<sup>9</sup> Brexit was the withdrawal of the United Kingdom (UK) from the European Union (EU) on 31 January 2020. The UK is the first and so far only sovereign country to have left the EU, after 47 years of having been a member state of the EU and its predecessor, the European Communities (EC), since 1 January 1973

<sup>10</sup> The Regional Comprehensive Economic Partnership (RCEP) was signed by 10 members of the Association of Southeast Asian Nations (Asean), plus China, Japan, South Korea, Australia and New Zealand. Its members make up nearly a third of the world's population and account for 29% of global gross domestic product.

<sup>11</sup> Murky forms of protectionism were defined as those that do not necessarily violate WTO obligations but are legitimate abuses of discretion and are detrimental to the commercial interests of trading partners, such as bailouts.

equivalent to \$600 billion, and slow down China and the U.S GDPs by 0,9% and 0,7% respectively (Lill, 2019).

The Covid-19 pandemic, starting in 2019, is also contributing to this trend, as it makes governments around the world become increasingly protectionist in the effort to limit economic damage, especially in areas such as medical supplies and food products. Which was anticipated by Deborah Elms, Executive director at the consultancy Asian Trade Centre, 2020 that “*There is a much bigger wave of protectionism in the near term that we should expect, that is not just in medical supplies... but it will also start to affect food*”. The most common measures are export licensing requirements or related export restrictions on medical ventilators and/or personal protective equipment, taken by Argentina, the European Union, India, the Republic of Korea, Russia, Saudi Arabia, Australia, Brazil, Turkey, and the United States. Vaccine nationalism is also a problem, as some of the G20 countries including France, India, and the United Kingdom restricted the export of certain medicines (Antonio, 2021). Global economic activity is at risk of grinding to a halt as many countries implement social distancing and quarantine measures of varying degrees to prevent the spread of COVID-19 viruses (Lee, 2020). As a result, on April 4<sup>th</sup>, 2020, the WTO announced that global trade is projected to plummet by 13% to 32% the same year (Lee, 2020).

In conclusion, increasing protectionism does more harm than good, and it is best that governments, especially of developed countries, refrain from taking protectionist measures in the long run.

#### *4.2.2. Impacts of protectionism on developing countries*

It is undeniable that international trade has made great contributions to development, growth and the decrease in poverty in many developing countries. Thanks to international trade agreements and increasing investment, as well as simultaneous growth, millions are removed from poverty and the standards of living have considerably been improved. However, rising protectionism will become a threat to their economies.

The impact of protectionism on developing countries can be devastating. Many of these countries are dependent on global supply chains, especially Taiwan, Korea, Singapore, Hungary, Malaysia, Thailand, Vietnam, Chile, and the Philippines, and would thus be susceptible to a breakdown in trade if protectionism continues (Khor, 2018).

Rising protectionism will also depress many countries' demand for commodities and other products, heavily affect trade and decrease trade-dependent countries' ability to export goods, especially agricultural products. As a result, a lot of developing countries have limited ability to import the resources they need such as machines, technology and medical supplies. In addition, foreign investment will be limited as governments continue to take protectionist measures, hindering growth opportunities.

The Covid-19 pandemic has also further escalated the problem. As the viruses spread, quarantine and related measures are taken to reduce economic damage and loss in trade has become unavoidable as people lost their jobs and the burden on healthcare and social security spiked. Many governments struggle to deal with the pandemic, and vaccination is recommended. However, most developing countries, with their smaller economies, do not have the technology to produce vaccines on their own, and they become dependent on larger economies for medical supplies, such

as the United States with Pfizer, Russia with Sputnik V and China with Sinovac and Vero Cell. However, some of these developed countries show hesitation in sharing their vaccines and only want to do so after their domestic needs were met, and vaccine nationalism<sup>12</sup> become a serious problem that the WHO and CEPI<sup>13</sup> must find a solution to as fast as possible.

#### *4.2.3. Impacts of trade protectionism on Vietnam*

With the trend of economic integration and trade liberalization deepening, the world situation is experiencing complicated and unpredictable developments, especially in the context of the Covid 19 wave of impacts, countries are becoming more and more concerned, followed by increasing measures to restrict trade and protect domestic production. In 2020, Vietnam registered a record increase in the number of trade remedy cases with 39 cases, 2.5 times higher than the 16 cases in 2019, and nearly 20% of the total number of cases since 1995 (Trade Remedies Authority of Vietnam, 2021). Vietnam's export goods are facing many difficulties besides technical measures, some markets also strengthen investigation and apply trade remedies such as anti-dumping, anti-subsidy and self-defense.

Trade remedy lawsuits and protectionist barriers have caused significant negative impacts on exporters in particular and the Vietnamese economy in general in a number of aspects. Reduced capacity and competitive advantages of exported goods is the first impact. Besides, Vietnamese enterprises will have to invest considerable human resources, time and money in participating in the settlement of the entire anti-dumping and anti-subsidy investigation case; not to mention some trade measures even lasted for decades, dragging along the costly expense. Moreover, when being sued, exporters will have to change their business strategies, invest in production... to respond to changes in the export market, meanwhile moving to other markets will also be more difficult. Also, Vietnam's export products are likely to be massively sued under the chain effect.

#### *4.3. Causes for increasing trade protectionism in terms of global scale*

Protectionism is referred to as the deliberate effort to restrict imports or encourage exports by erecting trade barriers. Regardless of justifications favoring free trade and growing trade liberalization, protectionism itself remains extensively regulated. There is an abundance of grounds that can be used as excuses to promote protectionism namely specific industries protection, national securities, unemployment decrease, support fair trade, etc. Hence, within the scope of this paper, by scrutinizing some main factors, not only those aforementioned but also a majority of adverse effects from the decline in globalism and the COVID-19 pandemic, the following section will impart to readers a closer look into the underlying stimulations for protectionism.

##### *4.3.1. Direct motivations for employing protectionist policies*

###### ***National Security Argument***

Economic interconnectedness and globalization have resulted in a system in which each country's economic viability is mainly dependent on that of other countries (though to varying

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<sup>12</sup> Vaccine nationalism refers to the situation where developed countries will benefit in producing home-grown vaccines and poorer countries will not get access to the vaccine anytime soon, ultimately prolonging the pandemic.

<sup>13</sup> The Coalition for Epidemic Preparedness Innovations (CEPI) is a foundation that takes donations from public, private, philanthropic, and civil society organizations, to finance independent research projects to develop vaccines against emerging infectious diseases

degrees). As a result, contradictory or aggressive economic tactics between countries pose a significant national security risk. Indeed, economic penalties are frequently employed as a direct weapon of war and conflict. This emphasizes a crucial protectionist argument about the very real risk of economic reliance on other countries.

### ***Infant industries argument***

The major goal of this system is to provide protection, as the name indicates. Economic marketplaces are naturally competitive, and for a number of reasons, younger economies are especially exposed to their more developed counterparts in other nations. New industries, according to the newborn industry argument, require protection until they become efficient enough to compete in the global market.

### ***Unfair competition argument***

Unfair competition arising from disparities in policy and enforcement capabilities is one of the strongest grounds for trade protectionism. The potential for unfair competition to arise, developing markets without the infrastructure to monitor their firms and execute fines, is one of the greatest justifications for some form of trade protectionism. This is known as the unfair competition defense, remarkably dumping, intellectual property or mergers, acquisitions, and market dominance.

### ***Protection in domestic labor against cheap foreign labor argument***

One fallacious argument is that trade restrictions are necessary to protect domestic workers against low-wage overseas workers. This reasoning is flawed because, even if home wages are greater than wages overseas, domestic labor costs can still be cheaper if domestic labor productivity is sufficiently higher. Even if this were not the case, mutually beneficial trade might still be based on comparative advantage, with the low-wage country specializing in the manufacture and export of labor-intensive goods and the high-wage country specializing in the production and export of capital-intensive goods.

### ***Scientific tariff argument***

The scientific tariff is another fallacious justification for protection. This is the tariff rate that would make import costs equivalent to local prices, allowing home manufacturers to compete with international producers, according to the rationale. This, on the other hand, would abolish international price disparities, which are the expected outcomes of comparative advantages, and eliminate trade in all goods subject to such “*scientific*” tariffs (Salvatore, 2013).

### ***Outsourcing argument***

Companies frequently form strategic relationships abroad and allocate much of the manufacturing labor to these places. This is frequently due to cheaper labor and simpler governing structures in such areas. From a policy standpoint, the apparent conclusion is that these are jobs lost to foreign rivals. While this viewpoint is frequently chastised for being blinkered and incompatible with the contemporary economic understanding of free markets, it has led to policymakers giving incentives to “*bring employment back home*”.

### ***Domestic unemployment reduction and trade deficit balance arguments***

Protection is required to minimize domestic unemployment and correct a balance-of-payments imbalance, according to two questionable reasons. By causing imports to be replaced with domestic manufacturing, protection would minimize domestic unemployment and balance-of-payments deficits. However, because they come at the expense of other countries, they are *beggar-thy-neighbor* justifications for protection. When protection is employed to decrease domestic unemployment and a country's balance-of-payments deficit, it actually creates more unemployment and a worsened balance-of-payments deficit abroad. As a result, other nations are likely to retaliate, and in the end, all nations suffer (Salvatore, 2013).

#### *4.3.2. Declining globalism does have a bearing on the rise of protectionism as a facilitating catalyst*

The increase in protectionism closely relates to the degradation of the World Trade Organization - the largest trading organization in the world that facilitates faster globalization. Inspecting this only organization handling disputes and also being the symbol of trade liberalization, analysts are concerned about some issues this organization needs to tackle (Bach, 2020).

#### ***Ineffective settlement dispute mechanism***

To commence with, WTO must work effectively to resolve disputes in the context of its failure to resolve unfair trade practices. The U.S - China trade war could be a fine example suggesting the WTO dispute settlement mechanism is inefficient whereas the final decision made by a three-member panel set up by DSB was of little influence on U.S behavior and also was almost worthless to China (Office of the United States Trade Representative, 2020).

#### ***Covering insufficient trade areas***

In addition, WTO has to update their rules to cover areas namely digital trade, cross-border data flows and many services such as commercial aviation, because these trade spheres are not currently included, making future lawsuits targeting these sections be left unsolvable.

#### ***Unresolved conflicts with the U.S***

More importantly, the WTO is bearing deep-seated conflicts with the most powerful nation in the world - the United States that demands immediate resolvment. Appellate Body - the supreme court making dispute settlement in the world - was paralyzed due to a lack of judges since Washington has attempted to limit and obstruct the nomination of new members to this panel in response to complaints about judicial activity at the WTO and worries about the U.S sovereignty. Meanwhile, at the roundtable of the "I+6" group, the Deputy Director - General of the WTO pointed out that the fundamental problems the WTO is facing stem from political and diplomatic causes. The WTO's four largest members, the EU, the UNITED States, China and Japan, which account for more than 50 percent of world trade, have deep "*geopolitical disagreements*". According to him, if the four major members find a "*common voice*", it will help create a common consensus. Therefore, in order to reform the WTO and improve the role and effectiveness of this organization, the cohesion of major members is extremely important. If no instant action is taken to deal with current obstacles, WTO will gradually lose its most basic function: settlement disputes and global trade promotion, which in return creates opportunities for protectionism to flourish.

#### *4.3.3. How the COVID-19 pandemic has accelerated the growth of protectionism*

Playing no less vital role in promoting protectionism, the COVID-19 pandemic has not only halted trade flow among countries but also induced nations to take their own protectionist measures. Despite appearing to be a health crisis, COVID-19 has exerted negative impacts on international trade. More detailedly, the pandemic forces countries to apply lockdown, social distancing or quarantine measures with a view to preventing the spread of this virus, which leads to disruption in the supply chain on a global scale and consequently international trade is severely damaged.

On the other hand, two specific sectors including the food industry and the medical field observed a reverse pattern. Many large food-exporting countries such as Russia, Ukraine, Vietnam, India, Egypt... have put some new temporary restrictions to assure national food safety (Reuters Staff, 2020). The medical supply sector was even in a worse situation when 80 countries were recorded to be applying limits or bans on the export of such medical equipment as gloves, protective suits, face masks and other gear (Shalal, 2020). Other medicines also confronted export barriers and more recently is the case regarding vaccine nationalism when developed countries are not willing to share their vaccine supply with poorer countries. These aforementioned facts all suggest the shrinking of globalism.

Moreover, in reality, there are some country leaders taking advantage of the situation and charged international trade for worsening the crisis. By the time the epidemic began to rise, the U.S. hospitals faced a severe shortage of personal protective equipment. But the Trump administration had waited until March 17<sup>th</sup>, 2020, to reluctantly remove tariffs it has imposed since the start of the trade war on ventilators and medical masks imported from China, which produced nearly 75 percent of the masks the U.S. imports (Thanh, 2020). The U.S. Trade Representative Robert Lighthizer, a trade skeptic, took the opportunity to blame trade itself as the cause of the COVID-19 crisis. *“Unfortunately, like others, we are realizing that being too dependent on other countries for cheap medical products and supplies during this crisis has created a strategic weakness in our economy”*, he said.

## **5. Some recommendations for trade protectionism resolvment**

### ***5.1. WTO’s solutions to the rise of trade protectionism***

The WTO has long played a critical role in the process of promoting and setting the stage for trade globalization as well as being a negotiating body for dispute resolution among member states. However, the organization is facing certain turbulences from the rise of protectionism as well as internal weaknesses. Therefore, proposing reform options is more urgent than ever in order that trade protectionism will soon stall and regress, avoiding long-term consequences.

#### ***5.1.1. An honest judge to cry foul***

Most governments prioritize their countries over other economies. As a result, some of WTO’s members may find a number of its rules and regulations unbeneficial or even damage their economies and refuse to comply.

The WTO should act as an honest judge when leaders fail to keep their promise, with the support of the World Bank and the IMF. Hufbauer and Schott (2008) suggest that every week the WTO should publish a running report card of raised tariffs, trade remedies, and other new policy measures that may obstruct trade. Warnings and punishments should also be taken into



consideration should any case of betraying happen, such as reduced trade benefits, increased tax on certain products and so on.

Therefore, the WTO can track and prevent the case of uncontrollable protectionism and governments will be more likely to keep their promises.

#### *5.1.2. Make changes to the dispute management system*

Economic disputes are unavoidable, and the WTO's dispute resolution system plays a critical role in resolving them and minimizing possible trade damage. However, owing to Trump's refusal to make new nominations when the terms of current Appellate Body (AB) members expire, the Appellate Body's work has come to a halt, endangering the organization's existence.

Some of the suggestions include: WTO Members better express their individual voices by resorting to individual or joint “*interpretative declarations*” to articulate their disagreement with AB interpretations (Fukunaga, 2020) and preserving the existence and role of the AB by appointing its members by the majority (Vidigal, 2019), maintaining the role of the AB by appointing its members by majority, or establish a compliance committee to audit and overlook the functioning of Appellate Body (Rathore and Bajpai, 2020).

#### *5.1.3. Save the Doha Round<sup>14</sup>*

Despite its uncertain future, a successful Doha Round had proved to be one of the best solutions to rising protectionism. The WTO should encourage its members to continue negotiating about trade barriers. According to Robert Z. Lawrence<sup>15</sup>: “*Nothing would be more effective in underscoring global commitment to an open multilateral trading system than a speedy agreement that captures what is now on the table*”.

The Doha Round was effective in maintaining a healthy global economy, as it aims at reducing protectionism. However, protectionism is, in some way, beneficial to some large economies such as the US, Japan and so on. They have enough economic power to require quality products with prices that suit their demands. Moreover, taxes contribute greatly to their GDP. Thus, it is not easy for them to give up such advantages.

It is difficult to deal with the problem, as it is nearly impossible to reach an agreement without raising conflicts and dissatisfaction. The WTO should encourage its members to continue negotiating about trade barriers.

#### *5.1.4. Bridging the differences between developed and developing countries*

The risk of not reaching a deal now outweighs any extra marginal advantages. The window of opportunity is fast closing, and any delay may be catastrophic. The situation may deteriorate further as a result of the COVID-19 epidemic, which is continuously obstructing global trade.

As unemployment rises and commodity prices increase, as well as striking demand in medical supplies and agricultural products in response to the pandemic, many governments become

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<sup>14</sup> The Doha Round is the latest round of trade negotiations among the WTO membership. Its aim is to achieve major reform of the international trading system through the introduction of lower trade barriers and revised trade rules (The WTO).

<sup>15</sup> Robert Z. Lawrence was appointed to President Bill Clinton’s Council of Economic Advisers from March 1999 to January 2001. He is also the director of the Harvard Kennedy School Trade Group and the faculty chair of Kennedy School Executive Programs.

protectionist, especially in vaccination, which leads to concluding an agreement to reduce trade barriers and cut farm subsidies become increasingly difficult in the near future (Lawrence, 2018). Therefore, it is necessary to prevent a possibly deep and long-lasting recession to set in.

In order to bridge the differences, the WTO should provide developing countries with incentives such as better trade conditions, better prices as well as reduced tariffs and subsidies. Moreover, they should be given more time to tackle tariffs and a longer period in transition to fully comply with an agreement compared to developed countries.

However, the WTO should also refrain from excessive and unfair measures, as they may dissatisfy developed countries, creating unnecessary conflicts.

## ***5.2. Measures to ensure Vietnam's sustainable economic growth amid the outburst of the U.S - China trade war and the globally rising trade protectionism***

### ***5.2.1. On a macroeconomic scale***

*Firstly*, strengthening the role of governmental management is imperative, especially for the Ministry of Industry and Trade, the Ministry of Finance and other industry associations, in order to build technical barriers and control the quality of goods imported into Vietnam, especially goods originating from China.

Proactive measures are required to deal with the risk of exchange rate fluctuations between the yuan and the USD affecting Vietnam's trade. Proactively introduce measures to protect domestic goods as well as prevent goods from being smuggled from abroad.

Functional units should also soon apply effective trade defense measures, need to use measures to resolve and control the quality of goods, in order to prevent them at border gates and customs; closely prevent trafficking and smuggling of goods and also, market management teams need to monitor the area more closely.

*Secondly*, it is necessary to optimize economic relations, in addition to signing the CPTPP<sup>16</sup>, which is a very good step but we need to go further to supplement the markets that no longer exist. On the other hand, we must prevent the dominance, in all forms of a country or economic bloc, on the Vietnamese economy.

The first step will be to maximize economic and trade relations through new-generation FTAs<sup>17</sup>, and will not allow a partner to have a position to dominate the national economy. This policy applies not only to demand but also to supply to the national economy.

*Thirdly*, it is advisory that business entities make good use of the large Vietnamese market: with nearly 100 million middle-income consumers, it is an attractive market and will be of interest to many countries.

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<sup>16</sup> The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (abbrev. CPTPP) is a Free Trade Agreement between 11 countries: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

<sup>17</sup> A Free Trade Agreement or FTA is an agreement according to international law to form a free-trade area between the cooperating states. There are some common types of FTAs, such as Multilateral Trade Agreements (of which the agreement is from all members in WTO), Plurilateral Trade Agreements (the involvement of all countries members is not required but just which with a common interest), Bilateral Trade Agreements (this is the ones between two countries).

*Fourthly*, constantly fighting to preserve and develop its export markets. In the immediate term, the direct impact of the war is the difficulties raised by the U.S administration to prevent the export of steel, aluminum and catfish to this market. In order to avoid falling into a dilemma with a dangerous situation for national sovereignty, it is best not to take sides, i.e. to remain “*economically neutral*”.

*Lastly*, there is a call for careful studies of Chinese goods that can be imported into Vietnam in case, due to limited Chinese exports to the U.S, the country will transfer goods to Vietnam, from which to export to the U.S market with the label as goods from Vietnam.

#### 5.2.2. On a microeconomic scale

*Firstly*, we need to aim to improve our import and export strategy in a sustainable way, in which export growth is both in breadth and depth. There is a need for enhancement in the quality of Vietnamese goods, diverse forms and models with suitable prices to increase the competitiveness of domestic manufacturing enterprises and for exporting enterprises.

*Secondly*, it is necessary to update the list of goods subject to U.S and Chinese tariffs as well as exchange rate moves of the U.S dollar and yuan so that businesses can react promptly and can seek opportunities to export more to the U.S items that Vietnam has not previously been able to compete with China.

*Finally*, fast access to major investors in the world, taking advantage of the affected Chinese market opportunity to promote investment in Vietnam is also a need to do.

### CONCLUSION

In conclusion, the purpose of this research was to investigate the causes, developments, and consequences of the United States - China trade war, as well as to raise awareness of the current trend of rising protectionism by analyzing its effects on the global economy as a whole, and developing countries in particular. It also gathers proposals and policies that the WTO could consider addressing the issue.

It is obvious that recent protectionist measures adopted by the world-leading governments have posed several challenges to global commerce. The situation worsens off with the presence of the COVID-19 pandemic, which further obstructs the chance of reducing protectionism. In the long run, this trend could prove to be detrimental to a number of countries, especially the open-economy developing countries that rely heavily on trade. Whether the worst scenarios occur or not depends significantly on the WTO's actions.

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