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Economic Statecraft and Strategic Decoupling: Evaluating U.S. and Chinese Use of Tariffs as Foreign Policy Tools

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ABSTRACT

The present paper would explore tariffs employed by the United States and China to pursue their economic statecrafting as part of strategic decoupling. Based on realism, economic interdependence, and liberal institutionalism theories, the study examines how the two states have used trade policy as a weapon in achieving geopolitical aims especially in the Trump administration to the Biden period. The study will be devoted to Section 231 and 301 tariffs that are applied by the U.S., and counter measures of China that involve sensitive areas including agriculture, rare earth elements and high technology. The choice of case studies and empirical studies outlines how tariffs are used as an instrument of not only economic but also coercive policies, direction of resources back to the home country, and technological onshoring. The results indicate that tariffs have had a mixed level of success in meeting strategic objectives, but have contributed in great ways to breaking global supply chains, eroding the multilateral norms in the trade, and a drift toward bilateral and regional economic affiliations. It also examines the effects of having a strategic decoupling on the current global political economy since it enhances geoeconomic fragmentation and it undermines the usefulness of having the world trade organization. Finally, the paper demands that economic competition must be carried out in a fair and mutually supportive manner that will strengthen the stability of the global environment whilst protecting national interests.

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Introduction

Economic statecraft, defined as the strategic use of economic tools to pursue foreign policy goals, has become increasingly prominent in global power dynamics, particularly in the context of rising tensions between major economies. The emergence of geoeconomics the integration of economic logic into geopolitical strategy has reshaped how states engage with one another, shifting competition from traditional military arenas to domains such as trade, investment, and technology (Blackwill & Harris, 2016). This development is most visible in the escalating U.S.-China rivalry, where economic interdependence has transformed into a battleground for influence and control. The trade war initiated during the presidency of Donald Trump and countered by China under Xi Jinping marked a critical turning point in bilateral relations. Trump's administration, citing unfair trade practices, intellectual property theft, and national security concerns, imposed sweeping tariffs on Chinese imports beginning in 2018, triggering retaliatory tariffs from Beijing. This battle was not only to rectify the trade imbalances but it was the deeper base that was considered by both countries to have a longing to decouple in major strategic areas. (Evenett & Fritz, 2019).

In historical terms, the relationship between U.S and China had been typified as engagement and integration especially after China joined the World Trade organization in the year 2001. This was the time when there was fast growth in bilateral trade, investment flows and international supply chain tangle. Nevertheless, hopes and anticipations regarding the economic liberalization of China disappeared when the U.S. became more apprehensive about the state-driven capitalism and its articles regarding fairness in the markets or national competitiveness. These issues were revealed in the Trump-Xi tariff war, and they marked the beginning of the more confrontational and transactional Economical Diplomacy model. This change is critical to understand regarding interpretations of analyses of the motives and implications of current trade disputes. Such a research is therefore important because it digs deeper behind the superficial trade figures to reveal the strategic reasons behind the utilization of tariff that provide some insight into how global power rivalry is being fought with some economic tools more than others.

The essence of this transformation is strategic decoupling which is an intentional purpose to reduce economic interdependence, especially in areas considered to be areas of national security or technological dominance. Strategic decoupling is no longer reshaping bilateral relations between the U.S. and China, but is redefining global trade policy, supply chain resilience and multilateral economic governance, in the existing

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global political economy. With nations rebalancing their economic roles to support their strategic power and global vulnerability, the decoupling trending results in considerable ramifications of globalization, evolution, as well as the post international trade design (Luttwak, 1990). The current study consequently adds to the knowledge on the presentation of the fusion between economic statecraft and the practice of decoupling in the production of the changing world order.

Theoretical Framework

The presented study is based on various theoretical approaches related to the fields of international relations and political economy to evaluate the strategic options of the United States and China in terms of trade conflicts and tariff wars. In the core of this analysis there is a realist and neorealist tradition which sees international politics as a competition and anarchic system where the main concern of the state is to survive and use power and national interest. Neorealism (Waltz 1979) focuses on the international system structure as the determinant of the state behavior, referring to the lack of authority that leaves states to defend themselves by maximizing the relative gains. In this regard, the application of tariffs by the U.S. and China may be viewed as power maximization given that the tariffs are implemented to maintain the strategy to stand on its own and address the threats to national safety and technological supremacy.

By contrast, the Economic Interdependence Theory developed within the liberal tradition suggests that when there are strong economic relations between states, the cost of going to war is greater and incentive to cooperate is high. Such interpenetration was historical when looking at the U.S.-Chinese supply chains. Nevertheless, the outbreak of the trade war undermines the positive premise of this theory by revealing that the asymmetrical vulnerability is possible in the form of interdependence, which gives rise to the state retreat in the strategic aspect. The changing view on decoupling can be associated with the growing awareness of the fact that economic interdependence is not always a deterrent to rivalry but that such interconnectedness can also at times be a source of power or blackmail (Keohane & Nye, 2011).

An alternative view is propounded by Liberal Institutionalism that countries can resolve disputes and enhance cooperation through international organizations (by WTO I mean here), norms and regimes. Although the institutions such as the WTO were established to facilitate the process of regulating trade relations and settling conflicts, their inability to restrict unilateral actions as of the U.S.-China trade war seem to speak volumes about the weakness of institutional governance on the part of great-power politics. Such undermining of the multilateral standards of trade demonstrates how states can choose to ignore institutional frameworks when there are fundamental interests involved.

Lastly, Game Theory and mechanism of strategic interactions can be an effective way of looking at the mutual relationship between tariffs imposition and retaliation. U.S- China trade tensions are also like a game that strategic players make observations, anticipating the action of the other and adjust their strategy to take the advantage. The idea of partnership (both in the Prisoner Dilemma and in the Tit-for-Tat strategies) are used to articulate the unreasonableness to trust each other despite mutual mistrust and uncertainty leading to escalation of conflicts, even when, possibly, cooperation can produce more advantageous results. Such communications highlight on the role of signaling, credibility and risk evaluation in economic diplomacy (Schelling, 1980).

Combined, each of these theoretical orientations provides a multidimensional insight on trade disputes between the U.S. and China. As realism sheds light on the power-driven characteristics of tariff strategies, the theory of interdependence and liberal institutionalism pinpoint what can be done and what remains as a weakness of economic cooperation. Game theory traverses these viewpoints in that it explains the influence of strategic decision on outcomes in an interdependent and competitive world.

Literature Review

Historical and Strategic Context

U.S.-China Economic Interdependence (1978–2016)

An economic boundary between the United States and China changed significantly since 1978 when China launched its reformation and opening-up policy led by Deng Xiaoping. This period was characterized by the advent of economic interdependence based on complementary interests: China could offer skilled but cheap labor and manufacturing potential, whereas the U.S. could present high-tech, capital and consumer market connections. Since the year 2001 when China joined the World Trade Organization (WTO), bilateral trade was conducted in large quantities, supply chains became more acute, and multinational companies had became principal stakeholders in the soundness of the U.S.-China relations in economies. This stage was supported by the premise that economic interaction would lure Chinese deflection into the liberal world community and would promote political moderation.

But as the mid-2010s approached, the relationship started to turn sour. U.S. policymakers started to regard as threats to fair competition and national security the Chinese economic model based on state control, its intellectual property and increasing technological ambitions. The interdependence between the two that was at one point mutually beneficial turned to strategic distrusting. Moreover, the WTO, which was created as a fortress of fair trade, failed to address state capitalism and resolve the tricky situation associated with subsidies and non-market activities (Evenett & Fritz, 2019). At the same time, there also occurred a more general opposition to globalization in the U.S. and nationally on the basis of a belief that America was losing jobs and had been left behind by globalization, as well as income inequality and the loss of national sovereignty. These strains preconditioned the coming of a radical adjustment of the American trade strategy with China.

The Pivot: Trade War and Tech War

The turning point came with the Trump administration (2016–2020), which abandoned previous engagement strategies and launched a full-scale trade war against China. Citing unfair trade practices, the U.S. imposed tariffs on over $350 billion worth of Chinese goods, to which China responded with retaliatory measures. This period marked a clear shift from economic interdependence to strategic competition, with tariffs used not only as corrective trade measures but as instruments of pressure and geopolitical signaling. The conflict extended beyond goods and tariffs into the technology domain, as Washington moved to restrict Chinese firms like Huawei and ZTE from accessing U.S. technology, citing national security concerns (Blackwill & Harris, 2016).

Under President Biden (2021–2024), the core strategic direction persisted, though the rhetoric softened. The administration emphasized supply chain resilience, industrial policy, and friend-shoring the relocation of production to allied or geopolitically aligned nations. Rather than reversing Trump-era tariffs, Biden's strategy continued the containment of Chinese technological rise through export controls, semiconductor restrictions, and investment screening. The result has been a gradual but deliberate decoupling in sensitive sectors such as artificial intelligence, quantum computing, and critical minerals. These policies reflect a bipartisan consensus in Washington that U.S.-China economic interdependence must be recalibrated to protect national interests in an era of intensified strategic rivalry (Luttwak, 1990).

Case Studies and Empirical Analysis

U.S. Tariff Use under Trump and Biden

The U.S. government under both the Trump and Biden administrations utilized tariffs as key tools of economic statecraft, with the Section 232 and Section 301 tariffs serving as the primary instruments for confronting China. Section 232 tariffs, which are justified on national security grounds, were imposed on steel and aluminum imports in 2018, signaling a shift toward economic policies prioritizing domestic industry protection and reshoring. The 301 tariffs, focused primarily on China—targeted a wide range of Chinese products, including electronics and machinery, in response to alleged intellectual property theft and forced technology transfers. The main objectives behind these tariffs were multifaceted: to protect U.S. industries, encourage reshoring of manufacturing, and contain China's technological rise.

The impact of these tariffs was mixed. On one hand, certain U.S. industries, such as steel and aluminum production, benefited from tariff protection. However, the broader effects were more complex, with higher consumer prices, disrupted supply chains, and strained relationships with key U.S. allies who were also impacted by the tariffs. The tariffs also exacerbated global supply chain disruptions, particularly in technology sectors where the U.S. and China are deeply interconnected (Bown, 2020). In the Biden administration, the language changed, but the strategic application of tariffs remained, and the focus on controlling supply chains and breaking Chinese control of key technologies stayed the same. The Biden administration however has been more concerned about multilateral action against unfair Chinese trade practices and not only unilateral tariffs.

China's Tariff Countermeasures

China retaliated against U.S tariff moves with tariffs on an extensive variety of U.S products, especially those produced in politically delicate industries, basically agriculture and technology. Citrus, soybeans, pork, cotton, automobiles, and machinery were among the products on which Chinese imposed tariffs and which are important to U.S. farming sectors and consumers. Such tariffs were calculated to not only make economic damage but provide a message about China wanting to challenge U.S. attempts to influence its trade because it is consistent with its overall geopolitical interests. Moreover, China applied non-tariff barriers (regulatory pressures and administrative delays) to interfere with exports of the United States. Take another example, the Chinese authorities introduced stricter inspections and licensing of the American firms especially in the sensitive industries such as tech and pharmaceuticals.

China employed its monopoly on the rare earths to enhance its bargaining power during trade negotiations too. Being the main supplier of the rare earth elements, which are essential to the production of electronics and defense systems, green technologies, among others, China exploited its monopoly on these elements as a possible tool in its wider trade policy. China was able to sign this power in all economic conditions since by massively limiting exports of rare earths, the country demonstrated the leverage it enjoys economically, and this message was severe, and the U.S. is extremely aware of the fragility of its supply chains when they depend on the Chinese inputs (Evenett & Fritz, 2019).

Strategic Decoupling Trajectories

Strategic decoupling is being significantly advanced by the trade and tech war between the two biggest economies: the U.S. and China, especially in the areas prone to critical technologies. U.S has attempted to break out of China supply chains to technologies with specific attention on the semiconductors, artificial intelligence (AI), and telecommunications. Restricting Chinese companies such as Huawei and ZTE by export control is one such move which is aimed at ensuring that China does not access important technologies that can advance its military and industrial capacity. Not only have these actions interfered with bilateral trade flows, but there has been a general restructuring of the world technology supply chains with American firms searching out substitute Chinese sources.

Besides these moves, U.S. has increasingly resorted to investment bans and export controls in pursuit of its overall interest to prevent access of advanced technologies in China. Meanwhile, China has operated by a self reliance policy, developed its technology and extended its sphere of influence by means of bilateral and multilateral economic alignments. The country was present in international arrangements like the Regional Comprehensive Economic Partnership (RCEP) and the rising relationships in the BRICS and Indo-Pacific systems, which indicate its attempts at bypassing the U.S.-driven global trade and technologies system. Such economic alliances aid China to access other markets and suppliers and thus achieve economic independence of the U.S-inclined systems. The decoupling path of the trade policies of the U.S and that of China may apply to decoupling in terms of longer-term transition in the global economic design built on duality of technological systems and re-arranged interlinking economies (Luttwak, 1990).

Challenges and Prospects

The trade war between the U.S and China has highlighted various issues that have made the global economy to become complex. Among the foremost problems are the economical disfragmentation present in the trade war. Global supply chains have been reconfigured by the introduction of tariffs and promotion of strategic decoupling of the two largest economies (Evenett & Fritz, 2019). This process of decoupling has exposed numerous industries to shocks specifically in areas where China as a dominant power harbour them like technology, rare earths and consumer electronics. With this possibility of realignment of the supply chain creating hurdles as countries and corporations contemplate relocating their manufacturing to some other location, like Southeast Asia or Mexico, the risks that accompany this possibility create more hazards in terms of cost escalation, inefficiency, and instability of an economy. In nations where it relies so much on the U.S. and the Chinese market, it is impractical and strategically problematic to know how to tread in this new economic reality.

Still another serious challenge is the future of multilateral trading organizations, of which the World Trade Organization (WTO) is the best-known. The trade war between the U.S and China has highlighted the inability of the WTO in regulating unilateral trade and dispute settlement measures. The failure of WTO to control non-tariff barrier or to implement trade laws due to protectionist politics has brought the issue of the relevancy of the institution in the 21st century (Bown, 2020). The world is increasingly being polarized in regional trade blocs and other forms of economic organization such as the Regional Comprehensive Economic Partnership (RCEP) and BRICS, which have raised fears that the authority of WTO will decline causing global trade norms and principles of rules-based systems to erode.

Along with these problems, there exist with the probability of a more robust worldwide economy as well. To provide an example, the changes in the supply chain could also promote a more diversified trade relationships that will decrease the reliance to a specific state or region. Moreover, the trade war has motivated nations and industries to reconsider the flexibility of their supply chains and especially in view of such disruptions as the COVID-19 pandemic has inspired. The new interest in supply chain resilience and friend-shoring creates avenues of cooperation between similar minded economies particularly in the Indo-Pacific where economies are attempting to hedge against the rise of Chinese influence (Luttwak, 1990). Moreover, not only may the pattern of the technological novelty and the online economy transform the international economic relationships once again, but it will also open new possibilities of communication and rivalry that will be less attached to the patterns of the global production and the trading channels.

In general, although this problem of trade war between the U.S and China is significant, it also creates possibilities that would effectively restructure the global economy to become more balanced and less vulnerable to economic shocks. Nevertheless, these opportunities will be realized through proper coordination, enhanced multilateral systems, and strategic oversight of the geopolitical tensions, which are still defining the global trade.

Discussion of Research Findings

The reasons that the United States and China put tariffs expose a change in character of economic statecraft towards more coercive actions alternative to the normal trade policy. Both countries applied tariffs as weapons of coercion the U.S. wanted to coerce China to change its economic behavior, especially in the areas of intellectual property theft, access to technology, and market access whereas China resorted to applying tariffs as economic extraction tools against the U.S. due to its economic imperialism. The tendency of the Trump administration to use tariffs, especially under Section 301 (against unfair trading practices in China), was motivated by the need to rebalance the trade balances and hinder the technological ascent in China. On the other hand, the retaliatory tariffs offered by China were meant to protect local interests, as well as, exercise sovereignty in response to the foreign demands. Whether these tariffs are effective is, however, controversial. Although the tariffs have managed to put China on the negotiation table, further strategic effects of the tariffs on the overall capacity to change the behavior of China and reshaping or reshoring of the American manufacturing industries or the trade deficits have remained vague. In contrast, some scholars suggest that tariffs tend to produce mutual damage instead of the intended transformations, which is to say that in the short-term behavioral transitions, the implementation of tariffs may have an impact, but there are no guarantees that the structural and long-lasting changes that are sought out will occur (Bown, 2020).

Over global trade practice, U.S.-China trade war has been of great implications to the world trade organization (WTO) and to multilateral trade practices. The trade war revealed the weaknesses of WTO in handling unaided efforts and trade protectionism. Although the WTO has a mandate to arbitrate any trade disputes and enforce world trade regulations, the two countries mostly excluded it because they sought to pursue tariffs and other non-tariff barriers in a way that was bilateral. Such loss of confidence in the capacity of the WTO to mediate the norms with concerns to trade has diminished the efficacy of the organization to sustain the multilateralism. The trade war has also catalyzed the move toward the regional and bilateral trade agreements (e.g. RCEP), which circumvent the more tedious WTO-based dispute-resolving methods. The emergence of such alternative trade arrangements can be viewed as a possible disintegration of standards of international trade whereby every region assembles its own system of regulations, thus weakening the universality of the WTO regime (Evenett & Fritz, 2019).

In as far as the domestic economic impact, tariffs have resulted in a mixed outcome to both the U.S. and Chinese economy. On the one hand, tariffs gave protection to certain U.S. industries including steel and aluminum, and it also fit into the framework of the Trump administration mantra of America First, which was to bring back manufacturing jobs and lower trade deficits. Overall, though, the effects were negative to the consumer and the global supply chain since the increased cost of imported products was transferred to American customers increasing the prices of daily products and creating shortage in downstream industries that depended on Chinese components. On the one hand, retaliatory tariffs damaged some sectors of the Chinese economy (such as agriculture); on the other hand, they brought about the sense of self-reliance and rejuvenation of the industries in China, especially in high-tech industries, as a long-term trend towards emerging strategic autonomy.

Upon evaluating and analyzing the tariffs and decoupling factor, obviously, tariffs on their own have not had the overall desired effect of decoupling between the U.S and China. Tariffs have derailed certain sectors of the economy but they have not necessarily changed the nature of the heavily entangled global supply chains that connect China to other large economies. Nevertheless, the introduction of tariffs, along with restrictions on investment activities, exports control, and other non-tariff barriers, indicate a long-term tendency of a bifurcated global economy, with one axis involving the U.S. and the team of supporters, and the other axis being the environment of Chinese influence. With the two countries transitioning into self-sustaining in the key areas of technology, decoupling appears to be underway in some sectors, in particular high-tech and military industries.

Lastly, the collateral damage and risk of escalation posed by the tariff war between the U.S. and China have been tremendous. Though in the beginning the two states were interested in the use of tariffs as the tool of coercion, the process fast forwarded and led to the increase of prices on goods to be consumed by people, disruption of supply chains and retaliatory policies which influenced the industries on all continents. There were also concerns that the result of the trade war would be the result of an even greater decoupling in the global economy with nations cognitively being made to pick sides in the emerging geopolitical disputes. This increase is especially dangerous to the stability of the global market because it creates an environment of uncertainty and unpredictability in the international financial markets. In addition, tariffs can become a precedent of a rather dangerous example, when the other countries will use tariffs and it will become an international trade crisis, when protectionism will be better than cross-border cooperation. In this way, though the tariffs have changed the relation between U.S. and China, long-term escalation danger still is a significant threat to economic organization in the world.

Gaps in Literature Review

Most of the existing literature is dedicated to the discussion of the immediate economic effects of the use of tariffs, but there is still no in-depth research with respect to the interpretation of the long-term geopolitical implications of such policies. Particularly, what are the implications of tariffs on international competitions outside the U.S versus China tug-of-war? There is potential to conduct further research on how tariff wars among big economies alter international alignments, multilateral institutions such as WTO, and geopolitical environment at large in the atmosphere of emerging economic nationalism and regionalism.

While tariffs have been the focal point of many studies, there is a gap in understanding the role of non-tariff barriers (NTBs), such as regulatory measures, licensing requirements, and administrative delays, in the U.S.-China trade conflict. These barriers have become more significant as both nations employ a comprehensive strategy of economic statecraft. Further studies are needed to examine the effectiveness of NTBs in achieving foreign policy goals and their unintended consequences, especially for industries reliant on cross-border regulations.

Although much attention has been given to the broader economic decoupling between the U.S. and China, there is a gap in the literature regarding the role of specific technologies (e.g., semiconductors, AI, 5G) in advancing strategic decoupling. Future research could examine how tariffs and investment restrictions in these high-tech areas are accelerating the splintering of the global technology landscape, and what this means for global economic and security dynamics.

There is a significant gap in longitudinal research examining the domestic economic impact of tariffs over extended periods. While short-term effects such as price increases and industry protection have been well-studied, there is limited research on how tariffs affect broader economic trends such as productivity, innovation, and income inequality over time. Studies that follow these impacts over several years could provide critical insights into the effectiveness of tariffs as policy tools and their long-term effects on the domestic economy.

While there is some research on the impact of tariffs on global supply chains, the literature has yet to comprehensively address how tariffs and trade wars reshape the global production network in the long run. In particular, more research is needed on how tariffs affect the reconfiguration of supply chains, especially in critical sectors such as technology, pharmaceuticals, and rare earths. How do firms adapt to new trade realities, and what does this mean for the global division of labor and industrial strategy?

While many studies examine the bilateral U.S.-China trade war, there is a gap in research on the multilateral economic alignments emerging as a result of the conflict, particularly in the Indo-Pacific region, BRICS, and RCEP. These economic blocs are increasingly central to China's global trade strategy, but how do they influence the global economic order, especially in relation to U.S.-led trade structures? Future research could explore how countries outside the U.S. and China are navigating this strategic decoupling, and the implications of these shifts for global governance and trade relations.

Summary, Conclusion, and Policy Recommendations

Summary

This study explored the use of tariffs by the United States and China as instruments of economic statecraft, focusing on their strategic use during the U.S.-China trade war. The study considered the reasons as to why tariff impositions have occurred, the effects on the internal and external economies and how tariff impositions are a leading factor to strategic decoupling between the two countries. The result showed that tariffs were largely used as an instrument of intimidation to meet political goals including bringing manufacturing back, deterring intellectual property theft and preventing the technological ascent of China. The analysis also demonstrated the intricacies of coercive measures of tariffs application, especially in cases of the global supply chain disruption by mentioned tariffs. Although tariffs served a useful role in creating attention on the U.S. grievances, their overall economic performance is questionable since both of the states underwent considerable economic expenses.

The relevance of global trade practices and future of the World Trade Organization (WTO) has also been evaluated on the basis of the study in which the U.S China trade war has undermined the existence of multilateral trade structures and has led to the disintegration of international trade relations. Lastly, the study explored the future of strategic decoupling and concluded that the process had improved in key areas such as technology but the full decoupling of the American and Chinese economies would not come about in the near-term owing to the high level of economic ties between the two entities.

Conclusion

The tariffs used in the U.S-China trade war have redefined the world of global economic interactions but the effects of its use as a coercive measure, and its future outcomes are not yet clear. Although the tariffs have compelled China to compromise and come up with certain changes in the global supply chain, they have had vital domestic expenses in both nations including increased prices of consumer items and interfered with industries. In addition, the undermining of standards of global trade and a loss of effectiveness of institutions such as the WTO pose serious threat to the stability of the global trade regime. Since the U.S. and China remain concerned with national security and technological independence, the world economy is going towards regionalization and technological and trade networks separation.

Policy Recommendations

- Due to the intricate and dynamic nature of U.S.-China trade war, the study suggests the following policy analysis:
- The U.S. and China ought to strive to renew and fortify the WTO by concentrating its efforts on the new challenges such as state-owned enterprise, theft of intellectual property and non-tariff barrier.
- Building a cooperative innovation system may enable avoiding the adverse effects of the decoupling process and help introduce beneficial changes to the global society through technological innovation.
- Multilateral work between policymakers to build supply chains that are resistant to disruption should be a priority, especially in the rare earths and pharmaceutical sectors.
- Nations need to invest in friend-shoring along with establishing alternate supply chains so that vulnerable items are not relied upon by a political instability region.
- Although tariffs can serve some strategic purpose, it is to be implemented selectively and accompanied by other diplomatic actions that can prevent escalation.
- The U.S. and China need to consider other measures of solving trade complaints, including the taboo of investment ownership or consortium to decrease the dependency of tariffs as the chief policy instrument.
- Both countries are to agree on long-term vision where economic rivalry is to be balanced by collaboration in the spheres of climate change, public health, and global security.

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