

# The Game Between China and the United States Based on Trade in the Epidemic Era

Chenyu Liang<sup>1, †</sup>, Na Liu<sup>2, †</sup>, Yang Liu<sup>3, \*, †</sup>

<sup>1</sup> Business college, Paris School of Business, 75020, Paris, France

<sup>2</sup> College of Economics and Management, Northeast Agriculture University, 150030, Harbin, China

<sup>3</sup> College of Economics and Management, Shanghai Ocean University, 201306, Shanghai, China

<sup>†</sup>These authors contributed equally

\*Corresponding author. Email: 1942110@st.shou.edu.cn

## ABSTRACT

Since 2020, the epidemic has had a great impact on China-US trade. On the one hand, China has been actively fighting the epidemic and is making progress in its trade with the United States. On the other hand, the United States intends to take advantage of China's vulnerability to the epidemic by introducing trade policies and hitting China with tariffs and other means. U.S. President Joe Biden has yet to roll back Trump's tariffs, and it remains to be seen whether the U.S. will pursue cooperation, competition, or conflict next. This paper establishes a dynamic game analysis model to study the possible strategies of the United States and China. The results show that China should not preempt its strategy at this time, and the United States is most likely to adopt a competitive strategy against China, that is, to raise tariffs on imported Chinese products. Since China is highly dependent on export trade, in order to avoid the loss caused by the MOVE of the United States, China should strengthen the development of the high-tech industry at present. At the same time, China should actively adopt a competitive strategy to get rid of the negative impact of the epidemic as soon as possible and gain an advantage in the competition between China and the United States.

**Keywords:** epidemic situation, Game theory, Trade strategy, Sino-us trade.

## 1. INTRODUCTION

In recent years, the china-us trade and economic relations have increasingly nervous, many disputes and friction also keep happening, scholars try to use the method of game theory to analyze the causes of this phenomenon, at the same time, also are actively seeking a solution to the impasse, but as will be the outbreak of the coronavirus, sino-us friction intensified, so that damage to a series of negative impact on the development of China's economic diplomacy, In an increasingly, under the background of serious, how to break through the barriers between the two countries, jointly safeguard the interests of both sides is very worth thinking problem, if not timely solve, will lead to all sorts of contradictions and problems, directly affect the relations between the United States, threatening the international economic order.

This paper attempts to breakthrough from, China and the United States history basis, try to use the cooperative game, A zero-sum game, such as a variety of game theory

analysis methods, to explore the epidemic, the characteristics of the sino-us relations, at the same time, by building a game model and points out that the two sides adopt different strategies and then create the gains and losses, and through the discussion of the two countries, the research and development of high-tech industries and supply from the perspective of the game, thinking and solution are put forward, Thus achieve the purpose of sustainable economic development of China and the United States.

The structure of the paper is as follows. The second part briefly introduces the characteristics of Sino-US trade relations. The third part analyzes the Sino-US trade strategy from the historical perspective. The fourth part studies the strategies and impacts of China-us trade under the epidemic situation, and the fifth part is the conclusion

## 2. LITERATURE REVIEW

### 2.1 Trade Strategies in China-us relations

The sino-us trade relationship is in constant change, so it is worth studying continuously. In particular, under the influence of the INCREASINGLY protectionist trade policies of the United States and the epidemic, Sino-US trade relations have become more complex and volatile. Zhang believes that the direct cause of Sino-US trade friction is the trade imbalance between the two countries, which is caused by the expanding trade deficit caused by the ever-increasing fiscal expenditure of the United States[1]. The US policy is characterized by unilateral protectionism and anti-globalization. In contrast, the plan proposed by China aims to give positive feedback to the international economy. On the premise of maintaining the multilateral trading system, it aims to promote international trade and financial reform and upgrade the international economic order by building a "community with a shared future for mankind" and the "Belt and Road Initiative". However, In the face of THE US policy towards China, China's situation is not optimistic. Zheng believes that the five to ten years after 2019 will be a dangerous and difficult period for Sino-US relations[2]. However, China should not be afraid of the challenge of the United States. Zhu points out that the United States is now superior in science and technology, and China also has the advantage of domestic political stability[3]. Ju pointed out that in the face of the global epidemic, all countries adopted very active monetary policies. The US has launched credit programs totaling \$2.3tn[4].

### 2.2 Characteristics of China-us relations after the epidemic

Zhang believes that as early as 2020, the epidemic in China has reached the stage of basic control, and at this stage, domestic demand needs to be stimulated to take the lead in getting out of the crisis and gain the opportunity to compete between China and the US[5]. Qian believes that the industrial means of production in cities with a high degree of trade dependence have been greatly negatively impacted. How to actively adjust and get out of the impact is a difficult problem facing China at present[6]. Frictions between China and the US have intensified amid the pandemic. Xia believes that the United States intends to launch a new "cold War" in the Taiwan issue. This kind of "cold war" damaged the interests of its opponents, but the United States itself also had to pay a high price. At present, China has no intention of participating in a new "Cold War" game initiated by the US[7]. Dong believes that in the Asia-Pacific production network, sino-US trade friction will harm other countries and regions in the Asia-Pacific[8]. Yang believes that according to the cooperative conflict theory in political science, the result of the game requires that the overall benefits of Sino-US cooperation should be

more than those of trade barriers, and both countries should get more benefits than those of trade barriers[9]. Zhao believes that since the "One Belt and One Road" initiative, China's development process has been accelerating, and the United States tries to jointly respond to China's challenges by strengthening cooperation with European countries, which makes China receive greater influence from the United States in the international arena, and the game between China and the United States should be more cautious[10].

## 3. THE HISTORICAL BASIS OF SINO-AMERICAN GAME

America's history prevents it from jumping out of zero-sum thinking. A zero-sum game, also known as a zero-sum game, as opposed to a non-zero-sum, is a concept of game theory, belong to the non-cooperative game, it refers to the parties to participate in the game under the strict competition of earnings, inevitably means that the other party's loss in-game, all gains and losses, sum to zero forever, gu mans cooperation does not exist. Looking back at the history of the United States and the Indians, we know that the Indians were once the indigenous people of the American continent. In just over 300 years, they were deported, butchered, and forcibly assimilated by the Americans, and became a minority, even nearly extinct. The Native Americans not only brought valuable supplies but also showed the European settlers how to cultivate the land in the wilderness, how to treat diseases with herbs, and gave them many material benefits and skills. In Europe, colonists gradually accumulated a large number of original colors through the tobacco and fur trade, which attracted more Europeans to take root here. The material foundation of the American nation was laid and the American nation began to take shape. But the colonists did not satisfied with their current land wealth, plundered began the Indians' land, the two sides conflict broke out, the Indians more agile and equipment completely has the upper hand, it also led to white settlers larger cruel revenge and slaughter, the conscious joint European colonists on the one hand, on the other hand, to land wealth efforts for chip, Bringing in certain Indian tribes and uniting them to attack other tribes in order to divide and inflame and worsen relations among the Indian tribes. Western culture believes that natural selection, survival of the fittest this way of thinking deeply affect most of the western society values, therefore, led him to the western powers scrambling for the colonial plunder brother haven't sprouted, even with their good of the country's wealth in order to get the benefit, the power as a standard of behavior, the war and sanctions as often use the means

The positive-sum game generally refers to a cooperative game, in which some players cooperate with Allies, and the game activity is the confrontation between different groups.

In a cooperative game, participants may not cooperate, but there will be an organization from an external organization to punish non-cooperators.

In the history of China, coordination and cooperation are the mainstream. China's win-win situation is very common. The first sentence of the romance of The Three Kingdoms says that the general trend of the world is that long separation will lead to unity and long separation will lead to separation. Chinese people always follow rules in doing things, and the rules here are the order in a certain social form and the integration and division of history. There are two rules in Chinese history, survival is the absolute principle and the republic in times of crisis. It is the powerful function of these two rules that history has been able to establish its order balance.

If the participants finally gain less than the effort, have no advantage, is a kind of lose-lose. Such as empty, in the history of The Three Kingdoms in the empty city stratagem, Yi Sima was Liang Zhuge, the general character of analysis are satisfied from now on, foil Liang Zhuge of the poet's name, in fact, at the time of the background, Yi Sima with Liang Zhuge, his interests are the biggest, otherwise, there will be no future he paid, it is called Fei Yang self-respect, with a powerful opponent, If he can be useful and responsible, Xin Han is his fate. Therefore, it is inevitable to succeed because of the best interests of the other side.

#### **4. ANALYSIS OF SINO-US GAME STRATEGY**

The game between China and the US exists for a long time and is constantly changing. Since 2020, due to the impact of the epidemic, the US attitude towards China has been changing, gradually shifting from the conflicted attitude proposed by Trump to the coexistence of competition and cooperation proposed by Biden. In the following paragraphs, we will analyze and discuss how China may respond to the US strategy and what the results will be based on the china-us trade-related data since 2017 and a series of relevant literature. At the same time, it puts forward views on how China should respond to various possible strategies of the United States by improving its own strength.

The study of Ming shows that disturbances to the regional economy, such as the ongoing Sino-US trade war, will cause pollution to the target economic sector and related sectors in the supply chain, target countries and their trading partners, and related pollution worldwide. In the long run, economic entities under globalization should pay more attention to the linkage between economy and environment, the diversion effect of trade, and the cross-border spillover effect of air pollution when designing trade strategies[11].

Kim believes that America's "fear" of its declining hegemony and China's rapid rise as a challenger to

America's hegemony is driving the TRADE war initiated by the Us against China. The root cause of the trade war between the world's two largest economies is political rather than economic[12]. As China continues to rise economically, technologically, militarily, and politically, the US will try to contain it to maintain its global hegemony. The obvious consequence of this tug of war is an intensification of the Sino-American struggle for global hegemony. The two most powerful countries in the world, the United States and China, seem to be colliding. This means that as long as our fears of China overtaking US hegemony persists, similar conflicts between the two hegemonic powers are likely to occur in the future, even after the current trade war has ended.

#### ***4.1 Game of Sino-US trade strategies under the epidemic***

##### ***4.1.1 The constructive of Game model construction***

In the past five years, China and the United States have had frequent trade conflicts, so the relationship has shifted from cooperation to competition. In addition, a series of tough trade policies against China implemented by Trump has aggravated the frictions between China and the United States thus reducing the possibility of bilateral cooperation.

However, the US economy has been severely affected by the epidemic recently. Relaxing trade policies with China can effectively stimulate economic growth. What's more, the United States has promised to reduce tariffs during 2021. Therefore, the possibility that the United States will adopt a cooperative strategy still exists. Meanwhile, Since the United States has violated WTO decisions recently, it is highly likely to launch an attack against China after the outbreak. Thus this paper includes conflict as one of the possible strategies that the United States may adopt in the game between China and the United States.

In terms of the current Sino-US situation, the set of trade strategies can be divided into cooperation, competition, and conflict. At first, China's possible response strategy is cooperation or competition. If and only if the United States chooses conflict, China will adjust its strategy to conflict.

This paper will establish a dynamic game analysis model, in which conflict strategy refers to a series of sanctions such as imposing more tariffs; competition strategy refers to maintaining the status quo of trade policy; cooperation strategy refers to cutting tariffs and other actions.

Paul pointed out that in the SD curve, we can see the impact of tariffs on the trade volume of exporting countries. When the importing country raises tariffs, the SD curve of the country changes[13].

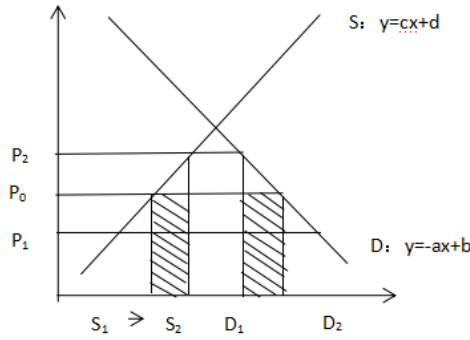


FIG. 1 Influence of tariff on import volume

As shown in the figure, when an importing country imposes tariffs on part of the goods, the other country will add part of the tariff  $1 - \alpha$  to the price and offset the impact of the tariff on the price by sacrificing some profits. Thus the price of the product after additional tariffs will be  $P_2 = P_0 + \alpha t$  (1) and the losses of the other country will be  $((S_1 - S_2) - (D_2 - D_1)) \cdot P_0$ .

Currently, A  $t_{U0} = 25\%$  tariff was imposed on part of the goods by the United State and a  $t_{C0} = 5\%$  or  $10\%$  tariff was imposed by China. Let's say the original price of Chinese goods is  $P_{C0}$  and American good is  $P_{U0}$ .

Assuming that the proportion of Chinese and American product prices corresponding to the change of trade tax rates is the same, the part of the price increase caused by tariffs is  $\alpha$ . Assuming China moves first. If China adopts a competition strategy and the United States adopts a conflict strategy, the reduced trade volume of China will be  $(\frac{\alpha_c t_u}{c_c} + \frac{\alpha_c t_u}{a_c})(P_{C0} + t_{U0}P_{C0})$  and the reduced trade volume of the United State will be 0. If both countries adopt a competition strategy, the reduced trade volume of both countries will be zero. If China adopts a competition strategy and the United States adopts a cooperation strategy, the increased trade volume of China will be  $(\frac{\alpha_c t_u}{c_c} + \frac{\alpha_c t_u}{a_c})(P_{C0} + t_{U0}P_{C0} - \alpha t_u)$  and the increased trade volume of the United State will be 0. If China adopts a cooperation strategy and the United States adopt a conflict strategy, the increased trade volume of China will be  $(\frac{\alpha_c t_u}{c_c} + \frac{\alpha_c t_u}{a_c})(P_{C0} + t_{U0}P_{C0})$  and the increased trade volume of the United State will be  $(\frac{\alpha_u t_a}{c_u} + \frac{\alpha_u t_c}{a_u})(P_{U0} + t_{C0}P_{U0} - \alpha t_c)$ . If both countries adopt a cooperation strategy, the increased trade volume of China will be  $(\frac{\alpha_c t_u}{c_c} + \frac{\alpha_c t_u}{a_c})(P_{C0} + t_{U0}P_{C0} - \alpha t_u)$  and the increased trade volume of the United State will be  $(\frac{\alpha_u t_a}{c_u} + \frac{\alpha_u t_c}{a_u})(P_{U0} + t_{C0}P_{U0} - \alpha t_c)$ .

In conclusion, the strategy sets of  $U_1 \sim U_6$  are listed as follows.

$$U_1: (-(\frac{\alpha_c t_u}{c_c} + \frac{\alpha_c t_u}{a_c})(P_{C0} + t_{U0}P_{C0}), 0)$$

$$U_2: (0, 0)$$

$$U_3: ((\frac{\alpha_c t_u}{c_c} + \frac{\alpha_c t_u}{a_c})(P_{C0} + t_{U0}P_{C0} - \alpha t_u), 0)$$

$$U_4: (-(\frac{\alpha_c t_u}{c_c} + \frac{\alpha_c t_u}{a_c})(P_{C0} + t_{U0}P_{C0}), (\frac{\alpha_u t_a}{c_u} + \frac{\alpha_u t_c}{a_u})(P_{U0} + t_{C0}P_{U0} - \alpha t_c))$$

$$U_5: (0, (\frac{\alpha_u t_a}{c_u} + \frac{\alpha_u t_c}{a_u})(P_{U0} + t_{C0}P_{U0} - \alpha t_c))$$

$$U_6: ((\frac{\alpha_c t_u}{c_c} + \frac{\alpha_c t_u}{a_c})(P_{C0} + t_{C0}P_{C0} - \alpha t_u), (\frac{\alpha_u t_a}{c_u} + \frac{\alpha_u t_c}{a_u})(P_{U0} + t_{C0}P_{U0} - \alpha t_c))$$

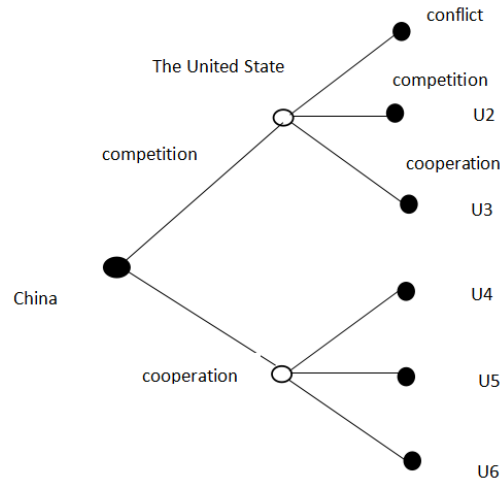
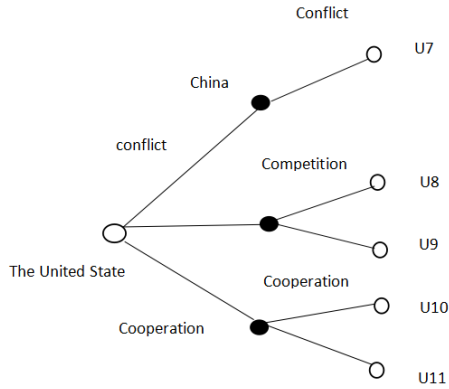


FIG. 2 Sino-US trade decision tree (China moves first)

Because the strategy adopted by the United States has no effect on trade volumes, we cannot judge the decisions the United States may take from trade volumes alone. However, if China or the United State imposes its trade tax, it will receive a taxable income and if they lower their tax rate, they will lose these part of gains. So if we take the gain of tax into consideration and use the backward induction, we will find out that no matter China adopt which strategy, the United State will adapt conflict strategy. Meanwhile, if China adopts a competition strategy and increases the imposed tax, it will still receive the taxes. Therefore, the Nash equilibrium is  $U_1: (-(\frac{\alpha_c t_u}{c_c} + \frac{\alpha_c t_u}{a_c})(P_{C0} + t_{U0}P_{C0}), 0)$ .



**FIG. 3** Sino-US trade decision tree (the United States moves first)

If the United State moves first, the strategy sets will be  $U_{7\sim 12}$ , which are listed as follow.

$$U_7: (-(\frac{\alpha_c t_u}{c_c} + \frac{\alpha_c t_u}{a_c})(P_{c0} + t_{u0}P_{c0}), -(\frac{\alpha_u t_c}{c_u} + \frac{\alpha_u t_c}{a_u})(P_{u0} + t_{c0}P_{u0}))$$

$$U_8: (0,0)$$

$$U_9: (0, (\frac{\alpha_u t_a}{c_u} + \frac{\alpha_u t_c}{a_u})(P_{u0} + t_{c0}P_{u0} - \alpha t_c))$$

$$U_{10}: ((\frac{\alpha_c t_u}{c_c} + \frac{\alpha_c t_u}{a_c})(P_{c0} + t_{u0}P_{c0} - \alpha t_u), 0)$$

$$U_{11}: ((\frac{\alpha_c t_u}{c_c} + \frac{\alpha_c t_u}{a_c})(P_{c0} + t_{c0}P_{c0} - \alpha t_u), (\frac{\alpha_u t_a}{c_u} + \frac{\alpha_u t_c}{a_u})(P_{u0} + t_{c0}P_{u0} - \alpha t_c))$$

If the United State moves first and adopts the conflict strategy, China will also adopt a conflict strategy. If the United States adopt cooperation or competition strategy, an important determinant of the United States' strategy will be whether the tax revenue  $(\frac{P_{c0}+t_{u0}+t_{cu}-b_c}{-a_c} - \frac{P_{c0}+t_{u0}+t_{cu}-d_c}{c_c})t_u P_0$  will exceed  $(\frac{\alpha_u t_c}{c_u} + \frac{\alpha_u t_c}{a_u})(P_{u0} + t_{c0}P_{u0})$ . Generally speaking, the revenue from the tariff itself has little impact on

international trade, so the US side will not easily preempt the conflict strategy.

In conclusion, the Nash equilibrium is  $U_8: (0,0)$ , Therefore, from the perspective of trade volume changes, China will not take the lead in taking action, and neither will the US.

However, there is still a possibility that the U.S. could launch sanctions against China to secure its hegemony.

#### 4.1.2 Discussion on Sino-US strategy and its influence

Based on the game model above, we know that China will not make the first move. The final equilibrium is going to be zero. That is, both China and the US adopt a competitive strategy and do not take action. At the same time, the china-us trade policy remains the status quo. Currently, the US has imposed 25 percent tariffs on \$200 billion of Chinese goods, while China has imposed 5 percent and 10 percent tariffs on about 75 billion Chinese goods. Because China is more dependent on trade than the United States, maintaining the current trade policy will do more harm to China. China should get prepared in advance. Liu believes that China is in the low-end segment of the international trade division, and China should develop high-end industries as soon as possible to cope with the crisis that competition may bring [14].

Table 1 compares the trade volume of Goods imported and exported from China to the United States and those from the United States to China during 2017-2020, showing the degree of trade dependence between China and the United States.

In recent years, China's trade surplus has grown rapidly, while the United States has been in a trade deficit, and China's export dependence on the United States is far greater than the United States' export dependence on China. According to Li, China's high-tech industry is weak and vulnerable, so even if both sides adopt sanctions, China will suffer greater losses. China should attach importance to the development of high-tech industries and make preparations for dealing with sanctions in advance. [15]

**Table 1.** Trade volume comparison between China and the United States

	2017			2018		
	Export	Import	Export dependence	Export	Import	Export dependence
China-U.S.	\$430,328,146, 524	\$154,441,855,8 74	19%	\$479,701,580, 548	\$156,004,352, 076	19%
U.S.-China	\$129,797,515,3 46	\$525,764,714, 470	8%	\$120,147,865,7 23	\$563,203,119,5 40	7%

	2019			2020		
	Export	Import	Export dependence	Export	Import	Export dependence
China-U.S.	\$418,584,249, 557	\$123,235,656, 498	17%	\$452,576,714, 868	\$135,996,512,7 40	17%
U.S.-China	\$106,626,645, 076	\$472,464,913, 744	6%	\$124,648,507, 633	\$457,164,215,5 09	9%

Referring to the data released by the National Bureau of Statistics, in the past 19 years, the exchange rate of US dollar against RMB has depreciated from 6.6 to 6.9, which has slightly improved China's terms of trade. What attitude the US takes towards Sino-US trade will have a great impact on China's balance.

Although cooperation strategy is the best option for both countries, in order to restrain China's economic development in the long run, the United States will not easily choose the policy of cooperation.

Since 2018, China's trade surplus has been on the rise, and China's terms of trade have been further improved. China, striving to build a "community of shared future for mankind", will not easily adopt the strategy of conflict, but can adopt the strategy of competition. For now, China should maintain its current policy and wait for further action from the United States before adjusting it.

#### *4.1.3 Further discussion of the US-China strategy and its implications based on factual cases*

In recent years, with the escalating trade friction between China and the US, the US has not only suppressed China from the trade, but also the high-tech field and other escalating suppression of China. As a world power, the US is in the middle and upper reaches of the industrial chain, and most high-tech industries have unparalleled advantages over China. China and the US have complementary advantages, with US technology being processed by China into commodities for global sales. However, with the rapid development of China, the relationship between China and the US is subtly changing. The position of Chinese companies in the global industrial chain is changing, and the complementary relationship between Chinese and US companies is gradually turning into a competitive one.

On 16 May 2019, the US Department of Commerce placed Huawei on the "Entity List" (a company placed on the "Entity List" is equivalent to being placed on a "trade blacklist" to restrict the production and development of Chinese company Huawei. ") and prohibits Huawei from obtaining components and related technology from US companies without the approval of the US government. The US move is intended to cut off Huawei's supply chain in its entirety and suppress Huawei across the board,

causing Huawei to reluctantly announce its abandonment of the US market. On the other hand, the share prices of US suppliers have plummeted, with some US companies that rely heavily on Huawei's business even seeing their share prices plummet by more than 20%. While the US is sanctioning Huawei, it is also trying to pressure other countries, especially its allies, to impose a technology blockade on Chinese high-tech companies such as Huawei. Huawei has become a favored partner of many telecom operators around the world and has signed 5G cooperation agreements with many of them.

In the long run, as the 5G market is fully rolled out, the US will have to face a series of problems such as technological disconnect and lagging communications infrastructure as Chinese companies such as Huawei master a large number of relevant technology patents. Faced with this situation, the US will eventually be forced to realize that the current zero-sum thinking on technology against China is "lifting a stone to smash its own feet". For the US, abandoning the zero-sum mindset of technology competition is the only way to get its 5G technology development back on track. 5G technology development and application is itself a market-driven innovation and development that objectively requires international cooperation among the intellectual, industrial, and supply chains. The US government has used it as a tool to suppress China, under the illusion that it can rely on complete or partial technology decoupling to suppress China's technological rise, and the acceptance of Huawei technology by some of its allies foreshadows the inevitable dashing of this delusion. The US government needs to face up to the fact that technological competition is not achieved by government export controls and sanctions, but by a combination of financial investment, knowledge accumulation and exchange, and market-based applications, and that handing over technology competition to the market itself will bring 5G technology back to a positive-sum game, and that healthy competition between the US and China in related fields will certainly bring new momentum to the progress of human society.

Since novel coronavirus in 2019, many companies have been affected by the epidemic as it continues to spread on US soil, and one by one they continue to collapse, leaving the entire industry in a state of near-

paralysis. This has led to a massive wave of unemployment in the US. In the financial sector, the impact of the epidemic had a huge impact on market confidence, and in 2020 the US stock market triggered four meltdowns in 10 days, which was unprecedented in the capital markets and led to the biggest impact on the US capital markets since the Great Depression in the 1930s. Coupled with the supply chain crisis that exists in the US itself, the only way to get out of this predicament is to engage in long-term economic and trade cooperation with China, which is the world's second-largest economy.

## 5. CONCLUSION

The epidemic has dealt a great blow to US trade, and at this stage, China's aggressive competitive measures can pre-empt the impact of the epidemic and seize the opportunity in the US-China trade. At the same time, the US can achieve a Nash equilibrium by cooperating with China, but the US tends to adopt a unilateralist dictatorial attitude towards trade. A US strategy of conflict would have a detrimental effect on China. In terms of current policy, the US will maintain the principle of competition for a long time and even initiate conflict by influencing China's cooperation nodes and influencing the political situation in Taiwan. China should therefore actively consider adopting a competitive strategy and keep an eye on the dynamics of US-China relations.

The epidemic has had a huge impact on trade between both China and the US, but the US has been using a tough foreign trade policy, through data model analysis, in the short term, the US to take a win-win cooperation idea, no longer on our export trade to increase tariffs, suppression of our high-tech products will bring greater benefits, and China will also actively help the US through the winter of the epidemic, providing a variety of materials as well as help, however, in the long term, the US will adopt a strategy of sanctions, competition, and continue to respond negatively to trade, economic exchanges with China, maintaining its position as the hegemon in world relations, which is also related to the legacy of US history, in the dynamically changing Sino-US trade relations, China should be more inclined to active competition strategy, once to seize the opportunity, but this is obviously not in line with China's long-term Republic I thinking win-win, creating a community of human destiny concept, how to take the strongest possible response is still a matter for profound reflection.

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