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GLOBAL TRADE TENSIONS DUE TO MADE IN CHINA 2025: A CASE STUDY OF THE US–CHINA CONFLICT AND ITS IMPLICATIONS FOR DEVELOPING COUNTRIES

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Abstract: *China's Made in China 2025 (MIC 2025) policy, launched as an industrialization strategy to dominate the global technology sector, and its implications for trade tensions between China and the United States. Analyzing the United States' economic policy response to MIC 2025, as well as the impact of the trade conflict on global trade stability and developing countries. These tensions have caused supply chain disruptions, changes in global investment flows, and increased market uncertainty. Findings show that developing countries are in a strategic yet vulnerable position, with opportunities for industrial relocation but also risks of new economic dependencies. This study uses the theoretical framework of hegemonic stability, liberalism, and trade uncertainty to examine this conflict as part of the restructuring of the global economic order. The results emphasize the need for adaptive strategies, strengthening domestic competitiveness, and active participation in multilateral forums to reduce the negative impacts of global trade tensions.*

INTRODUCTION

The main trigger for global trade tensions between the US and China is China's Made in China 2025 (MIC 2025) policy, introduced in 2015. The program aims to convert China into a high-tech powerhouse through state subsidies, intellectual property acquisitions, and the strengthening of domestic industries. China's ambitions pose a threat to the principles of free trade and global economic security, particularly through practices such as forced technology transfer, IP theft, and cyber espionage. The US response in the form of massive import tariffs and restrictions on Chinese investment has triggered a trade war that is systematically affecting international commercial regulations.

For developing countries, this conflict creates a strategic dilemma. On the one hand, exporting raw materials to China and relying on manufactured goods imports from the US makes them vulnerable to supply chain shocks. Meanwhile, retaliatory tariffs of up to 125% on Chinese products could reduce global trade by 0.7% and global GDP by 0.7%, with low-income countries bearing the worst impact. The International Commerce Center (2025) report predicts an 80% decline in US-China bilateral trade volume if escalation continues, threatening the economic progress that developing countries have achieved over the past decade.

MIC 2025 and the US response are not just ordinary trade conflicts, but rather a representation of the struggle for dominance in the new global economic order. Developing countries are not only affected parties, but also have the potential to become strategic players if they are able to take advantage of opportunities such as investment relocation and supply chain diversification. However, they must also be cautious of the long-term structural impacts that could weaken domestic economic competitiveness and stability. By understanding these dynamics through the lens of hegemonic stability theory, liberalism, neoliberalism, and trade uncertainty, this study provides a critical perspective on MIC 2025 as a broader global phenomenon. Tensions between the world's two largest economic powers create instability in the global trading system, which affects developing countries. These countries face new challenges in maintaining economic resilience, managing supply chains, and developing adaptive trade strategies. This phenomenon is an important issue when examining international relations and global political economy, as it shows how national domestic policies can have systematic consequences on international commercial regulations.

This study departs from the increased trade tensions between the US and China. This is due to the 2025 policy (MIC 2025) implemented in China. This guideline has raised global concerns about potential changes in hegemony and prompted a strong response from the US in the form of tariffs and trade restrictions. This conflict not only affects the two countries, but also systematically affects developing countries along the backbone of the changing global economic order. Against this backdrop, this study seeks to answer several important questions. The main questions include: (1) What are the political implications of MIC 2025 on the escalating trade tensions between China and the US? (2) What economic and trade policy responses has the US taken to MIC 2025? (3) How do US-China trade tensions affect global economic stability? Meanwhile, secondary questions include: (1) How will the US-China trade dispute affect developing countries in the context of trade and investment? (2) How can developing countries control themselves with the possibilities and challenges in a situation of global trade tension? (3) What is the role of multilateral agencies such as the WTO in response to this conflict?.

Theoretically, this is important for enriching the discourse on international politics and economics through the integration of theories such as hegemonic stability, liberalism, and uncertainty in the analysis of trade policy in the Made in China 2025 policy. Using a systematic literature review (SLR) approach, this study not only compiles views from various individual studies, but also presents a comprehensive conceptual mapping of the dynamics of global economic power. This contribution is important for clarifying how domestic industrial policy can have implications for international economic stability and inter-state relations. It focuses on analyzing US-China trade tensions in the period between 2015 and 2025, with the launch of the Made in China 2025 policy as the main starting point. The geographical scope of the research covers the main countries directly involved (the United States and China) as well as affected developing countries, particularly in Southeast Asia. The conceptual parameters are limited to aspects of international trade, industrial policy, and geopolitical implications, without reviewing the socio-cultural or military aspects of US-China bilateral relations.

As a systematic literature review (SLR), methodological limitations include reliance on secondary data available in journals, international reports, and academic publications. Another limitation is the potential for bias in the interpretation of data sourced from institutions with specific geopolitical interests. This study also does not intend to formulate concrete policies, but rather to provide an analytical basis that can be used to inform decision-making. Nevertheless, the systematic approach used still provides added value in understanding the complexity of contemporary global trade relations.

LITERATUR REVIEW

The approach used in this study is a systematic literature review (SLR) to comprehensively assess relevant literature on the Made in China 2025 (MIC 2025) policy, the US-China trade war, and its impact on developing countries. The literature search was conducted through academic databases such as Scopus, JSTOR, ScienceDirect, Google Scholar, and local e-journals such as e-journal.unair.ac.id. The keywords used included: “Made in China 2025”, “US-China trade war”, “developing countries”, “global supply chain disruption”, “trade policy uncertainty”, and “economic impact”. The inclusion criteria included articles in English and Indonesian published between 2015 and 2024, with full-text access, and directly relevant to the research focus. Exclusion criteria include non-peer-reviewed publications, duplicate articles, and literature with too narrow or irrelevant coverage. From the initial screening of several publications, 15 articles that met the criteria were selected for in-depth analysis, consisting of scientific journals, international organization reports (WTO, IMF), and academic theses.

This study also uses a multi-theoretical approach to understand global trade tensions resulting from the MIC 2025 policy and its impact on developing countries.

Hegemonic Stability Theory is the main basis for explaining geopolitical tensions between the US and China. This theory states that the international system is most stable when a single hegemon has the capacity to set and enforce global rules. In the context of MIC 2025, China is seen as a challenger to US hegemony in the technological and economic spheres, which has triggered a protectionist response from the US. Liberal theory has been used to highlight the importance of multilateral cooperation and the role of global institutions such as the WTO in resolving trade disputes. This theory explains how countries are encouraged to find peaceful solutions through international forums, but reality shows the weak effectiveness of these institutions in reducing the increase in trade conflicts. Neoliberalism theory focuses on investment flows and the impact of trade policies on economic growth. In this study, neoliberalism explains how developing countries such as Vietnam and Indonesia can use investment parades for trade wars. However, this theory also acknowledges that market uncertainty and volatility are threats to global economic stability.

Furthermore, the theory of trade policy uncertainty (theory of trade policy uncertainty) provides an analytical framework for the long-term impact of trade policy uncertainty on exports, investment, and economic growth. Models such as the Global Trade Model (GTM) and general equilibrium simulations are used to demonstrate the negative impact of this uncertainty on developing countries. By combining these theories, this study assesses MIC 2025 and the US reaction as not only a bilateral economic conflict, but also part of the restructuring of the world economic order, opportunities and structural challenges for developing countries.

METHOD

This study is based on a critical realist paradigm, which acknowledges the existence of objective realities (such as economic policies and trade conflicts) but also emphasizes the importance of understanding the social construction of these realities. This approach allows researchers to examine how state actors shape narratives and actions based on existing structural realities, while acknowledging that interpretations of policies such as Made in China 2025 may vary depending on the geopolitical and economic context of each country. A qualitative approach was chosen because it is suitable for answering exploratory and interpretive research questions, namely how China's industrial policy triggers trade tensions and what the implications are for developing countries. The tradition used is critical discourse analysis, which allows researchers to understand the dynamics of power, ideology, and representation in state statements and policies related to global trade issues (Fairclough, 1995).

A critical realist philosophical stance influenced the research design by placing the global structural context as an important backdrop in understanding the conflict, selecting secondary data from policy documents and official discourse, and emphasizing analysis on how actors frame and narrate their positions.

This study uses an intrinsic case study design (Stake, 1995), focusing on the US-China trade conflict as the main case. Case studies were chosen because they allow researchers to deeply explore the complexity of the Made in China 2025 policy, the United States' response, and its consequences for developing countries, within a specific geopolitical context. The research structure is oriented towards progressive interpretive analysis, starting from the text (policy and discourse) to the context (systemic and geopolitical impacts). This allows for a holistic understanding of the trade conflict case within the framework of global economic transformation.

FINDINGS AND DISCUSSION

The Impact of the Made in China 2025 Policy on Global Trade Tensions

The Made in China 2025 (MIC 2025) policy launched by China marks the country's grand ambition to lead the global technology sector. This move has been met with criticism from the United States, which views it as a threat to its technological dominance. MIC 2025's goal of strengthening China's domestic industry through subsidies, innovation, and control of the global supply chain has created tensions that are not limited to bilateral relations, but also impact global economic stability.

In response, the US has implemented a series of protectionist policies, such as high import tariffs and restrictions on Chinese investment. This move has triggered a trade war that has clouded the international trade climate. These tensions have disrupted the multilateral rules-based system that has long underpinned global trade and have the potential to hamper economic growth in general.

In the global context, this conflict has created high trade uncertainty, affected cross-border investment, and created market volatility. Developing countries are the most vulnerable to these dynamics due to their direct connection to the global supply chain. Their export and import activities have been hampered, while logistics and production costs have risen sharply. (See Table 4.1)

Table 1. The Impact of MIC 2025 on Global Trade Flows

Main Actors	Before MIC 2025	After MIC 2025 & Trade Conflict	Impact on Developing Countries
China	Major importers of technology from the US and Europe; Cheap Manufacturing Goods Exporter	Focus on import substitution & domestic technology production; Industrial relocation	Decline in demand for raw materials from developing countries
United States	A major exporter of high-tech to China; The main market for consumer goods	The application of high tariffs on Chinese products; FDI restrictions and technology exports	Exchange rate fluctuations and export market dependence are problems
Vietnam & Indonesia	Limited as a secondary production base	Industrial relocation from China; increase in FDI in the manufacturing and electronics sectors	Increased economic opportunities but with the risk of new dependency
Africa & South Asia	Raw material suppliers and small markets	Hit by the domino effect of global tensions; Decline in commodity price stability	Uncertainty in export prices and slowing economic growth
Global Supply Chain	Strong integration between countries; Efficiency-based and low cost	Fragmentation; Restructuring based on economic and geopolitical security	The need to adapt the logistics structure and diversify trading partners

The MIC 2025 policy also highlights changes in the power structure of the global economy. The economic dominance of the US is beginning to be systematically challenged by new powers such as China. This has led to a transformation in economic and geopolitical alliances, and has prompted developing countries to adjust their trade strategies in order to maintain economic stability and growth.

Thus, MIC 2025 is not just an industrial policy issue, but has become a catalyst for global economic restructuring. Developing countries must be able to read these dynamics as both a challenge and an opportunity to adjust their national policies and strengthen their position in the changing global economic architecture.

Direct and Indirect Impacts on Developing Countries

Developing countries face the direct impact of US-China trade tensions in the form of disrupted export-import flows and increased dependence on a particular market. For example, Southeast Asian countries that supply raw materials to Chinese industries are facing a slowdown in demand. On the other hand, the ban on technology exports from the US to China has caused drastic changes in global production flows.

The indirect impact of these tensions is also significant. One example is the change in foreign investment patterns, with many multinational companies considering relocating their production bases from China to developing countries such as Vietnam, Indonesia, and India. This creates short-term opportunities in the form of job creation and technology transfer, but also brings long-term challenges in the form of the risk of new economic dependencies.

The uncertainty of trade policy resulting from this conflict has also made investors more cautious in their decision-making. Developing countries that do not have flexible trade and investment policies have become less competitive in the eyes of global investors. In addition, changes in exchange rates and commodity price fluctuations have exacerbated the domestic economic conditions of these countries. (See Table 4.2)

Impact Dimension	Impact Explanation	Country Examples	Country Examples
Export-Import Trade	Decline in trade volumes, especially raw commodities and semi-finished goods	Indonesia, Brazil	Exports to China declined; Import costs from the US are increasing
Foreign Investment (FDI)	There is an industrial relocation from China to developing countries	Vietnam, Malaysia	Increase in FDI in the manufacturing and technology sectors
Global Supply Chain	Disruption of logistics and production distribution due to supply chain fragmentation	Thailand, India	Requires diversification of trading partners and strengthening local logistics
Exchange Rates & Financial Markets	Exchange rate fluctuations and capital market uncertainty	South Africa, Philippines	Currency weakness due to unstable capital flows
Industry & Trade Policy	Demands to adjust trade regulations and design import substitution strategies	Indonesia, Ethiopia	Creating opportunities for structural reform and strengthening of domestic industry

The global supply chain crisis triggered by the trade war has also prompted developing countries to evaluate their economic resilience. Dependence on a single country as a major export market or source of imports has proven to be a structural weakness that must be addressed through economic diversification and increased domestic production capacity.

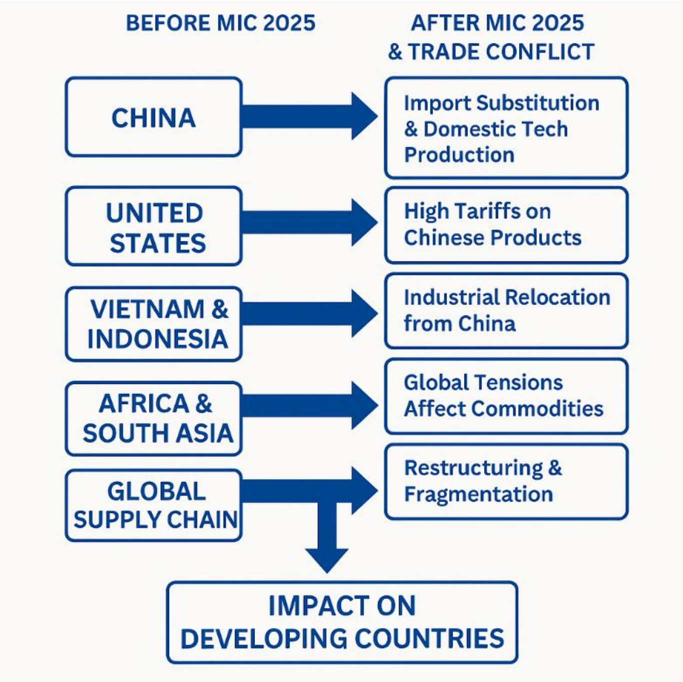

Figure 1. Infographic on trade flows between countries before and after the conflict

Therefore, developing countries are required to immediately adapt to these new dynamics. They must not only be responsive in dealing with short-term economic impacts, but also strategic in anticipating changes in the global economic architecture. This includes structural reforms, increasing industrial competitiveness, and strengthening negotiating capacity in international trade forums.

Developing Countries' Adaptive Strategies in Responding to Trade Tensions

Several developing countries have demonstrated a fairly good adaptive response in addressing the impact of this trade conflict. One example is Vietnam, which has successfully attracted industrial relocation from China, thanks to pro-business investment policies and relatively good political stability. A similar situation has occurred in Indonesia, with an increase in Foreign Direct Investment (FDI) in the light manufacturing and digitalization sectors.

Diversifying export and import markets is a key strategy that developing countries can implement to reduce their dependence on one or two major powers. In addition, improving logistics and infrastructure capabilities is an important step in strengthening national competitiveness in the face of shifts in the global supply chain. This needs to be accompanied by improvements in the quality of human resources.

Developing countries must also develop industrial policies that are in line with changing global market needs. The development of local technology and incentives for strategic sectors are key to creating economic independence. Long-term success will largely be determined by the ability of these countries to create added value from domestic production.

It is also important for developing countries to enhance regional cooperation and strengthen their position in multilateral organizations such as the WTO, ASEAN, or G20. In these forums, they can advocate for a fair and open trading system and minimize pressure from large countries. Collaboration among developing countries can also open up new opportunities in the technology, infrastructure, and logistics sectors.

With the right adaptive strategies, developing countries will not only be able to survive global trade tensions, but also have the opportunity to move up in the global economic hierarchy. This major challenge can become a momentum for more inclusive and sustainable structural economic transformation if managed with responsive and visionary policies.

The Role of International Institutions in the U.S.–China Trade Conflict

The US-China trade conflict tests the effectiveness of international institutions such as the WTO in regulating and resolving global trade disputes. So far, the WTO's ability to control the escalation of conflict is still considered weak. The slow and non-binding dispute settlement system has become the main focus of the international community.

The weakness of this institution is exacerbated by the unilateralism of major countries, especially the US, which often ignore WTO rules in trade decision-making. This creates a bad precedent and weakens the legitimacy of the WTO as a mediator of trade disputes. Developing countries are the most disadvantaged by this uncertainty because they are more dependent on a stable trading system.

As a solution, institutional reform of the WTO and strengthening the role of regional institutions are needed. New, more efficient and inclusive mechanisms need to be developed to resolve systemic trade conflicts. Developing countries must be active participants in this reform process to ensure that their interests are fairly represented.

Active participation in international forums must also be accompanied by strengthening economic diplomacy capabilities. Developing countries need to build strong domestic institutions in order to play a more effective role in trade negotiations and dispute resolution. This includes training trade negotiators, strengthening economic research institutions, and collaborating with global think tanks.

Overall, international institutions still have an important role to play in creating global trade stability. However, in order to face future challenges, structural reform and the active involvement of developing countries are essential prerequisites. Only then can a fair and sustainable global trading system be realized.

CONCLUSION

The study shows that the *Made in China 2025 (MIC 2025)* policy has become a major catalyst for rising global trade tensions, particularly between China and the United States. China's ambition to become the world's leader in the tech industry has sparked concerns from the United States, which has responded with a range of protectionist policies, such as high tariffs and investment restrictions. These tensions not only impact both countries, but also spread systemically throughout the world, especially developing countries that are connected in global supply chains.

Developing countries have experienced direct impacts in the form of trade disruptions, exchange rate fluctuations, and declining export demand. Meanwhile, indirect impacts have emerged in the form of shifts in global investment flows, market uncertainty, and pressure to carry out economic policy reforms. But behind these challenges, there are also strategic opportunities, such as industrial relocation from China that can be used to strengthen national production capacity and increase global competitiveness.

The study also highlights the importance of adaptive strategies that developing countries must adopt in the face of global trade tensions. Measures such as market diversification, industrial policy reform, logistics strengthening, and capacity building for trade diplomacy are crucial. Developing countries can no longer be passive, but must become active actors in creating economic stability and fighting for national interests in the midst of increasingly complex geopolitical dynamics.

In addition, the role of international institutions such as the WTO also needs to be strengthened in order to be more effective in resolving trade disputes and creating a fair and stable global economic order. Reform of the multilateral trading system is an urgent need, especially to ensure that developing countries have space and protection in the face of pressure from major countries.

Overall, the study concludes that the MIC 2025 is not only a bilateral issue between the US and China, but is part of a global economic restructuring that affects the configuration of world powers. Developing countries are at the crossroads between risk and opportunity. With the right strategy and strong institutional support, they have the potential to not only survive, but also grow and strengthen their strategic role in the new global economic order.

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