

The Implications of the US-China Trade War on Foreign Direct Investment Trends for the Period 2016-2025

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Abstract

This study examines the impacts of the US-China Trade War (2016-2025) on the Foreign direct investment (FDI) patterns. The findings indicate that escalating tariffs and technological restrictions redirected FDI toward politically stable economies in Southeast Asia and Latin America under the China+1 strategy.

Keywords:

Economic conflict;
US-China Trade War;
Foreign Direct Investment Trends;
Tariffs;
Restrictions.

JEL Classification Codes: F21;D74;F29.

Sectorally, traditional industries contracted, while technology and renewable energy sectors expanded. The study also reveals diverging FDI trends: the United States regained investor confidence through industrial policies, whereas China experienced a sharp decline amid rising geopolitical risks

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1. INTRODUCTION

Since 2016, the global economy has undergone profound transformations that have reshaped the map of foreign direct investment (FDI) flows. Geopolitical and economic factors have interacted in unprecedented ways, creating an environment characterized by high volatility and uncertainty. These tensions have expanded to include strategic trade conflicts, most notably the US–China confrontation, after having previously been confined primarily to geopolitical rather than economic disputes.

The rapid sequence of these events has generated cascading effects on FDI flows, prompting investors to reassess their risk exposure. The US–China trade war, in particular, has had significant repercussions on FDI dynamics, influencing both the geographical and sectoral redistribution of investments. Investors have sought safer havens and diversified their portfolios to mitigate risks and ensure greater stability.

1.1 Research Problem:

The US–China trade war and its associated measures, such as tariff increases, expansion of trade restrictions, and technological constraints, have disrupted global supply chains, international trade flows, and growth rates. These developments have led to a search for alternative investment destinations to avoid high tariffs as well as political and economic risks.

Consequently, substantial shifts have occurred in global FDI flows both geographically and sectorally. Emerging economies, as well as geopolitically neutral countries, have gained increasing importance as safer and more stable alternatives. Similarly, certain productive sectors have become more attractive due to their relative resilience to trade and technological restrictions.

In this context, the central research problem can be articulated as follows:

- What are the implications of the US–China trade war on foreign direct investment trends during the period 2016–2025?

From this main question, the following sub-questions emerge:

- How has the US–China trade war affected FDI flows geographically?
- How has the US–China trade war affected FDI flows sectorally?

1.2 Research Hypotheses:

To address the research questions above, the following hypotheses have been formulated:

- 1.The US–China trade war has led to a redirection of FDI flows toward countries exhibiting greater political and economic stability.
- 2.The US–China trade war has resulted in a decline of FDI flows into sectors most adversely affected by the restrictive measures arising from the conflict.

1.3 Research Objectives:

The main objectives of this study are as follows:

- To identify the emerging geographical patterns of FDI that have resulted from the US–China trade war during the period 2016–2025.
- To analyze the key economic sectors most affected by the US–China trade war during the period 2016–2025.

1.4 Literature Review

Several Arab studies have addressed the issue of trade wars from their economic dimensions. Bechker Elhem (2021) indicated that the US–China trade war has had tangible effects on global production and trade as a result of rising tariff barriers. Meanwhile, Manzel chahira and Bouhlassa Yasmine (2021) focused on the theoretical nature of such wars, viewing them as a manifestation of economic rivalry between major powers that has led to disruptions in trade exchanges between China and the United States, as well as instabilities in oil markets. In turn, Chibout Slimane and Guendouz Aicha (2021) showed that developing economies have been the most affected by protectionist policies due to their strong dependence on US and Chinese markets. However, most of these studies concentrated on the direct commercial aspects and did not thoroughly explore the implications of the US–China trade war for foreign direct

investment (FDI) trends, particularly regarding the geographical and sectoral redirection of investment flows and the repositioning of multinational corporations. This highlights a research gap that calls for an in-depth examination of this dimension to better understand how trade conflicts influence the dynamics of international investment.

2. Overview of US-China Trade War

2.1 Definition of US-China Trade War

Trade wars constitute a distinct manifestation of trade protectionism policies and represent one of their most significant outcomes. They occur when states adopt deliberate restrictive trade measures to pursue specific economic and political objectives. In such contexts, governments typically resort to the imposition of tariffs as a primary tool, alongside a range of non-tariff barriers such as import quotas, administrative procedures, and other regulatory constraints.

The fundamental purpose of these measures is to hinder or disrupt the movement of goods originating from trading partners, thereby exerting pressure on them to grant greater market access to the initiating country's exports. Consequently, trade wars are not merely economic confrontations but also instruments of strategic influence within the broader framework of international economic relations (Chibout, Messellem, & Guendouz, 2021, p. 331).

Also trade war is generally defined as a form of economic conflict in which countries impose tariffs, quotas, or other trade barriers on each other's imports in retaliatory manner. (Bown & Kolb, 2025).

Such measures are typically undertaken to protect domestic industries or to address perceived trade imbalances, but they often result in escalating tensions and broader disruptions to international trade relations.

The United States–China trade war designates a prolonged series of retaliatory economic measures, most notably the imposition of tariffs, that both countries levied on each other's imports beginning in early 2018. The conflict was initiated by the

United States, which justified its actions on several grounds: addressing the substantial bilateral trade imbalance, countering what it characterized as unfair trade practices, safeguarding intellectual property rights, and restraining China's rapid technological ascent in order to protect the competitiveness of US manufacturing industries. In response, China adopted reciprocal measures, introducing tariffs and other restrictions on American goods. This reciprocal escalation transformed an initial set of trade policy disputes into one of the most consequential trade conflicts in recent history, with implications extending well beyond bilateral relations to global markets, supply chains, and patterns of technological development. (Karthik & Mishra, 2020, p. 584).

The key measures that distinguish the trade war can be summarized as follows:

- Tariffs and Trade Barriers: The US imposed tariffs on hundreds of billions of dollars of Chinese goods, and China responded in kind, affecting a wide range of products;
- Technology Restrictions: The conflict expanded to include restrictions on technology transfer and business activities of major Chinese tech firms.

2.2 US-China Trade war causes:

According to a report published by the Saudi Investment Fund, the underlying causes of the trade war between the United States and China can be attributed to several interrelated structural and strategic factors (Bechker, 2021, p. 24):

- **Erosion of US global economic supremacy and widening trade imbalance:** Over the past decade, China's exports to the United States have exceeded 500 billion dollar annually, while U.S. exports to China have amounted to slightly above 150 billion dollar. This persistent asymmetry has intensified concerns regarding the sustainability of the U.S. trade position.
- **Decline in US manufacturing employment:** Between 1999 and 2009, the United States lost approximately six million manufacturing jobs, positions traditionally associated with relatively high wages and productivity among non-college-

educated workers. This decline has been partially attributed to globalization and to China's ascendancy as the world's leading manufacturing and exporting power, surpassing the United States in both scale and output.

- **Investment dynamics and globalization's uneven benefits:** Multinational corporations have invested over 2 trillion dollar in China, capitalizing on the advantages of globalization. However, these investments have not translated into equivalent employment opportunities within the United States. This imbalance has been further exacerbated by the US education system's limited capacity to upgrade the domestic labor force's skills in accordance with technological progress and the demands of a globalized economy.

- **Perceptions of unfair trade practices and intellectual property violations:** A further catalyst for the trade conflict lies in former President Donald Trump's assertions that China engages in unfair trade practices and intellectual property infringements. In contrast, China maintains that US actions are designed to impede its political and economic resurgence.

- **Divergent political imperatives and strategic objectives:** The report suggests that President Trump's policies were heavily influenced by his pursuit of reelection, whereas President Xi Jinping's priorities center on sustaining economic growth momentum while advancing long-term national objectives, embodied in the concept of the Chinese Dream, which envisions the great rejuvenation of the Chinese nation through accelerated economic development and the maintenance of robust growth rates.

2.3 The Evolution of the US–China Trade Conflict:

The evolution of the US–China trade conflict unfolded through a series of escalating measures, negotiations, and retaliatory actions that reshaped bilateral economic relations. Its origins can be traced to the period preceding the 2016 US presidential election, when Donald Trump's campaign emphasized the loss of American manufacturing jobs to China as

a consequence of globalization and China's expanding role in global production networks.

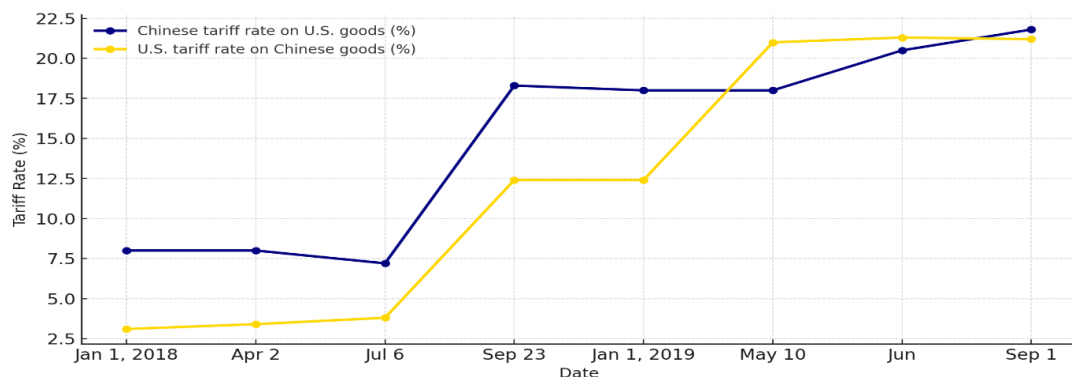
After assuming office in 2017, President Trump moved to fulfill his campaign promise to bring jobs back to America by imposing tariffs on a wide range of Chinese imports and redefining US trade policy toward China. The administration accused Beijing of engaging in unfair trade practices and intellectual property theft, prompting successive rounds of negotiations that repeatedly failed to achieve a lasting resolution.

By 2018, the trade dispute had escalated into a full-scale trade war, with both countries imposing multiple rounds of reciprocal tariffs that targeted industrial, agricultural, and technological products. These measures reached their peak in 2018–2019, significantly increasing tariff rates and generating widespread uncertainty in global trade and investment flows.

Although efforts to de-escalate tensions began toward the end of 2019, the impact of the conflict on global supply chains and production systems remained substantial. In early 2020, both sides signed the so-called *Phase One Agreement*, which sought to address certain issues—such as agricultural purchases and intellectual property protection—without fully dismantling the tariff barriers. Despite this partial accord, most tariffs remained in effect, reflecting the enduring structural tensions that continue to define the US–China economic relationship (Menazel & Bouhalassa, 2021).

As shown in the figure, the data highlight the level of tariffs imposed by both countries, reflecting the reciprocal escalation that characterized the US–China trade war:

Fig.1. Average Tariff Rate Between the US and China (2018-2019)



Source: (Al-Hasani & Abdel Moneim, 2020)

The figure illustrates the evolution of average tariff rates imposed by the United States and China on each other's goods between January 2018 and September 2019. The data clearly show a progressive escalation in tariff levels, reflecting the intensification of the trade conflict during this period.

At the beginning of 2018, US tariffs on Chinese goods stood at approximately 3.1%, while Chinese tariffs on US goods were around 8%. By mid 2018, following the initial rounds of trade measures, both rates began to rise sharply. The US tariff rate increased to nearly 12.4% by September 2018, and China's corresponding rate reached 18.3%, demonstrating reciprocal retaliation between the two economies.

The escalation continued into 2019, when both countries imposed additional rounds of tariffs, raising the average rates to above 20% by mid-year. By September 2019, Chinese tariffs on US goods reached approximately 21.8%, while US tariffs on Chinese goods stood at 21.2%.

This upward trend highlights the mutual and symmetric nature of the tariff escalation, where each side responded in kind to the other's trade restrictions. The overall pattern reflects a

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transition from limited tariff adjustments in early 2018 to a full-scale trade war by late 2019.

Economically, these increases signify rising trade barriers and reduced market access for both countries' exporters, contributing to global uncertainty and disruptions in supply chains.

The products targeted by these trade measures during the US–China trade war can be summarized as follows:

Fig.2. principal categories of goods targeted by tariff measures imposed by United States and China



Source: (Menazel & Bouhalassa, 2021, p. 347)

The US–China trade war involved a wide range of products subjected to successive rounds of tariffs by both countries. On the US side, the tariffs primarily targeted industrial and technological goods, including electronics, machinery, steel, aluminum, and automotive components, reflecting Washington's focus on sectors central to China's industrial and export capacity. Additionally, the United States imposed tariffs on consumer goods such as furniture, clothing, and household appliances during later phases of the conflict.

Conversely, China's retaliatory tariffs concentrated on agricultural and energy-related products, aiming to exert economic and political pressure on key constituencies within the

United States. These included soybeans, corn, pork, beef, and liquefied natural gas (LNG), among others. China also expanded its list to cover automobiles and certain manufactured goods.

Overall, the selection of products targeted by both sides reflected their strategic intent: the United States sought to curtail China's technological ascent, while China aimed to influence domestic political dynamics in the United States by targeting sectors critical to American exports.

3. Impact of US-China trade war on FDI Trends

3.1 Global Evolution of FDI Flows and Sectoral/ Geographical Trends (2015-2025)

Between 2015 and 2024, global foreign direct investment (FDI) flows experienced pronounced cyclical fluctuations shaped by structural and conjunctural global developments. After reaching a historical peak of approximately 1.98 trillion dollar in 2015, global inflows contracted steadily, falling to 1.75 trillion dollar by 2020 and plunging further to 1.29 trillion dollar amid the disruptions of the COVID-19 pandemic. The health crisis severely affected cross-border investment confidence, constrained international mobility, and disrupted production networks, particularly in capital-intensive sectors. From 2022 onward, partial recovery occurred, driven by the reopening of global economies and renewed cross-border investment in digital and green sector, culminating in FDI inflows of nearly 1.7 trillion dollar by 2024, equivalent to about 45% of their 2015 level. (UNCTAD, 2024; IMF, 2024). By 2025 global FDI inflows are projected to reach around 1.8 trillion dollar, representing a gradual but incomplete rebound, still 10% below the pre-pandemic trend (IMF, 2025).

From a geographical standpoint, a discernible redistribution of global FDI occurred over the decade. The share of emerging and developing economies rose substantially, from 40% in 2015 to approximately 55% in 2024 to nearly 57%, driven largely by Asia's growing role as a global investment hub. This shift reflects the region's expanding consumer markets, improving infrastructure, and increasing integration into global supply chains. Conversely, the share of developed economies declined

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from 55% to 45% over the same period, as high operating costs, regulatory tightening, and geopolitical frictions eroded competitiveness (UNCTAD, 2023).

foreign direct investment flows have experienced various changes across different geographical regions as follows:

- **Africa** in 2023, Africa's inflows declined 3% to 53 billion dollar (UNCTAD, 2024, p. 4), after that it recorded a strong rebound in 2024 to 97 billion dollar, (+84 percent year-on-year), representing 6% of global FDI, compared to a 4% share the year before. The surge was largely driven by an international project finance deal for urban development in Egypt (Ras El-Hekma). Net of this increase, FDI in Africa still rose 12% to about 62 billion dollar, comprising 4% of global inflows. Yet early-2025 indicators imply that without similarly large deals, the continent's inflows may return to more typical levels (UNCTAD, 2024, p. 1).

- **Developing Asia** experienced an 8% decline in 2023 to 621 billion dollar, but still nearly half of global FDI, with resilience in Southeast Asia offsetting followed by partial stabilization in 2024–2025 as Southeast Asia continued to benefit from *China + 1* manufacturing relocations (Ritchie, 2024, p. 1)

- **Latin America and the Caribbean** saw roughly 190–200 billion dollar in 2024 inflows, with new project momentum in Brazil, Argentina, and Colombia leading regional recovery (UNCTAD, 2024)

- **Europe** underwent a dramatic statistical reversal, from (-106) billion dollar in 2022 to (+16) billion dollar in 2023, owing to conduit flows rather than real-economy projects. In 2024, Europe registered its lowest number of new FDI projects in nine years, reflecting high energy costs and regulatory uncertainty (EY European Investment Monitor, 2024)

- **North America** showed relative strength, driven by semiconductor, electric-vehicle, and energy-transition investments in the United States, supported by fiscal incentives under the *Inflation Reduction Act* (UNCTAD, 2025).

At the sectoral level, global investment patterns underwent structural realignment. Technology, renewable energy, and

logistics emerged as leading destinations for FDI, whereas oil and gas industries declined from 25% of total inflows in 2015 to around 15% in 2024 and 13% in 2025. Notably, renewable-energy investment surged by more than 200%, reaching an estimated 350 billion dollar annually by 2024 and 370 billion dollar in 2025, around one-fifth of total global FDI flows. These shifts reveal an increasing investor orientation toward sustainability, digitalization, and supply-chain resilience.

The technology and digital-economy sectors have also expanded rapidly, attracting significant inflows into artificial intelligence, semiconductor manufacturing, and smart logistics. The restructuring of global supply chains, exacerbated by the pandemic and trade conflicts, further stimulated investment in manufacturing and logistics services, which rose by 35% between 2020 and 2025 (OECD, 2025).

3.1.1 Global FDI Flows Between Developed and Emerging Economies

According to the *UNCTAD World Investment Report* (2023), FDI flows to developing economies exhibited marked volatility throughout the period, peaking at approximately 837 billion dollar before declining to 746 billion dollar, before rebounding modestly to an estimated 880 billion dollar by 2025. This cyclical behaviour underscores the structural vulnerability of developing economies to exogenous shocks, ranging from shifts in global interest rates to geopolitical uncertainty and commodity price volatility. Such sensitivity reflects the persistent asymmetry in global financial markets, where capital allocation remains influenced by risk perceptions and institutional quality differentials (Verbeke, Dunning, & Lundan, 2008). Consequently, maintaining macroeconomic stability and enhancing institutional credibility are pivotal for developing economies seeking to attract sustainable and resilient investment flows.

The recovery, however, remains uneven across regions: Asia accounts for nearly 60% of all FDI to developing economies, while Latin America and Africa lag behind due to institutional fragility and high-risk premiums. This volatility underscores the

continued vulnerability of developing countries to global economic conditions and their dependence on policy frameworks that enhance investment climate stability (UNCTAD, 2024)

3.1.2 Trends in International Investment in Renewable Energy

Since the 2015 Paris Agreement, international investment in renewable energy has almost tripled, reaching new highs in 2025 amid accelerating global decarbonization efforts. While developed economies, especially the EU, the US, and Japan, still attract the majority of clean-energy investment due to mature financial systems and strong policy support, developing economies have begun to close the gap. In particular, China, India, Brazil, and South Africa have emerged as significant renewable-energy hubs. However, many low-income economies continue to face high capital costs and limited access to private international finance. To address these disparities, public-private partnerships (PPPs) and multilateral financial institutions (MFIs) such as the World Bank, IFC, and African Development Bank have intensified their role in de-risking renewable projects and providing blended-finance mechanisms (IMF, 2025; IEA, 2025).

By 2025, global investment in renewable energy is expected to exceed 400 billion dollar annually, representing nearly one-quarter of total FDI inflows worldwide, a critical milestone for the transition toward sustainable growth.

3.1.3 Geographical Trends of FDI (2015–2025)

Amid slowing global growth and intensifying trade and geopolitical tensions, global FDI flows declined for a second consecutive year in 2023, falling by 2% to 1.3 trillion dollar, before recovering slightly to an estimated 1.5 trillion dollar in 2024 and a projected 1.8 trillion dollar in 2025. Investment became increasingly concentrated in emerging Asian economies, particularly China, India, and Southeast Asia, driven by robust domestic demand, competitive manufacturing ecosystems, and digital transformation initiatives.

In contrast, developed regions such as North America and Europe experienced relative stagnation, primarily due to trade

frictions, rising production costs, and supply-chain reconfiguration, Latin America re-emerged as a favorable destination for both resource-based and manufacturing investment, benefiting from commodity demand and regional trade agreements. Africa, despite its potential, continued to face structural impediments, including inadequate infrastructure and regulatory uncertainty. These regional divergences signify a broader realignment of global value chains and reflect investors' growing preference for cost-efficient, politically stable, and strategically located economies (UNCTAD, 2024).

3.1.4 Regional Distribution of FDI (2015–2024)

According to *UNCTAD* (2024), Europe experienced a remarkable reversal, from a net negative FDI position of 106 billion dollar in 2022 to a positive 16 billion dollar in 2023, largely due to adjustments in intra-company financial flows and special-purpose entities. However, inflows to other European countries declined by 14%, while North America witnessed a 5% contraction, reflecting reduced cross-border mergers and acquisitions. In contrast, developing regions collectively recorded a 7% decline to 867 billion dollar, primarily due to an 8% fall in China's inbound investment, the world's second-largest recipient. Southeast Asia maintained relative resilience, while Africa saw a modest reduction and Latin America achieved a 3% increase, with inflows reaching 193 billion dollar. This uptick signals renewed investor confidence, supported by regional integration and favorable commodity cycles.

3.1.5 Sectoral Trends of FDI (2015–2024)

Between 2015 and 2024, the global composition of FDI flows underwent structural transformation. Traditional capital-intensive sectors such as oil and mining contracted, while technology, digital infrastructure, and renewable energy emerged as dominant destinations. Over 1,000 new project announcements in developing countries, particularly in Southeast and West Asia, targeted digital economy initiatives, industrial modernization, and green technology development. Southeast Asia alone accounted for roughly half of all new projects announced globally

(UNCTAD, 2024). A notable example is the green-hydrogen project in Mauritania, which represents the world's largest initiative of its kind and highlights the growing participation of developing economies in the renewable-energy value chain. Nevertheless, the overall contraction in global project financing, evidenced by a 25% decline in the number of projects and a 50% reduction in their aggregate value, has disproportionately affected low-income countries that remain dependent on infrastructure investment for long-term development (UNCTAD, 2024).

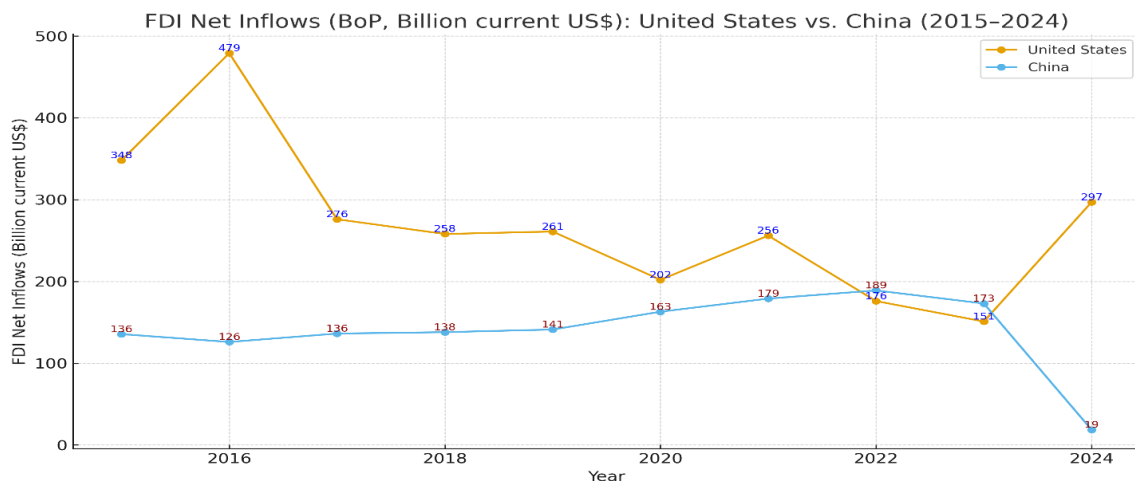
3.2 The Impact of the US-China Trade War on FDI Reorientation

Since 2018, escalating trade tensions between the United States and China have profoundly reshaped global investment patterns. The US administration imposed tariffs on roughly 50% of Chinese imports, encompassing nearly 85% of China's exports to the American market, under the political objective of reviving American industry. Although the policy aimed to strengthen domestic manufacturing, it simultaneously disrupted global supply chains, elevated production costs, and incentivized the geographic diversification of FDI (Bown, 2021; IMF, 2024). Multinational enterprises have since adopted China+1 strategies, redirecting investment to alternative Asian destinations such as Vietnam, Indonesia, and India, to mitigate trade exposure and ensure supply-chain resilience. Consequently, global production networks have become more regionalized, signaling a structural reorientation of FDI away from hyper-globalization toward a new paradigm of strategic diversification and regional integration.

3.2.1 Impact of the US-China Trade War on FDI Flows

The trade war significantly disrupted global FDI flows, generating a climate of economic uncertainty that prompted multinational enterprises (MNEs) to reassess their supply-chain dependencies. Facing higher tariffs and technological restrictions, many firms adopted the so-called China + 1 strategy, shifting parts of their operations to countries such as Vietnam, India, and Mexico to mitigate costs and risk exposure.

Fig.2. FDI Net inflows: US – CHINA (2015-2024)
billion USD



Source: (World bank, 2025; Al-Hasani & Abdel Moneim, 2020)

Between 2015 and 2024, Foreign Direct Investment (FDI) inflows to the United States and China were deeply influenced by economic cycles and the escalating US–China trade war. The United States saw strong but volatile inflows, starting at about 348 billion dollar in 2015, peaking at 479 billion dollar in 2016, and then declining as trade tensions intensified in 2017–2019, when tariffs and uncertainty reduced cross-border investment. During the COVID-19 pandemic, inflows fell to 202 billion dollar in 2020, but the US quickly recovered thanks to policy stability, technological leadership, and renewed investor confidence, reaching 297 billion dollar by 2024. In contrast, China’s FDI inflows grew modestly from 136 billion dollar in 2015 to 179 billion dollar in 2021, supported by manufacturing and digital industries, but the ongoing trade war, coupled with tightening regulations, geopolitical frictions, and supply chain diversification, led to a steep fall, down to 19 billion dollar in 2024. This dramatic divergence highlights how the trade war

accelerated the reallocation of global capital: investors increasingly favored the US as a secure and innovative environment, while China faced declining confidence due to rising risks and strategic decoupling.

The sustained imposition of tariffs and reciprocal restrictions undermined investor confidence, slowed capital flows, and revealed the deep interdependence between the two largest economies, an interdependence that persists despite political friction (Menazel & Bouhalassa, 2021) .

3.2.2 Geographical Effects of the US–China Trade War on FDI

Between 2018 and 2020, firms from both China and the United States began relocating production to alternative investment destinations, notably Vietnam, India, and Mexico, as part of a broader restructuring of global value chains.

This shift coincided with increased reliance on bilateral and regional trade agreements, such as the US, Mexico, Canada Agreement (USMCA), as substitutes for multilateral frameworks.

The tariff war also weakened global demand, contributing to the global economic slowdown of 2019.

3.2.2.1 FDI Trends in Advanced Economies

In North America, FDI inflows increased by 13% in 2024, largely due to a surge of mergers and acquisitions (M&A), up 80%, and new investment projects rising by 93%, particularly in the semiconductor sector, where inflows reached 266 billion dollar.

In contrast, Europe experienced a 45% decline in cross-border investments despite new projects in the United Kingdom and Italy. Within the European Union, inflows dropped in 18 out of 27 member states, with Germany seeing a 45% fall, Italy 35%, and overall European inflows down 10%, raising concerns about future economic prospects (UNCTAD, 2023).

3.2.2.2 FDI in Developing Economies

In Asia, FDI decreased by 7% in 2024, with China recording a 29% decline from its 2022 peak at 40%.

Nevertheless, inflows to Africa rose to USD 94 billion, an 84% annual increase, while Latin America and the Caribbean FDI declined by 9% and saw a 5% drop in Brazil's inflows in total FDI but notable growth in new projects in Brazil, Argentina, and Colombia, signaling potential recovery (UNCTAD, 2024).

3.3.3 Sectoral Impacts of the US–China Trade War

The trade conflict significantly affected the US economy, especially agriculture, automotive manufacturing, and industrial goods.

Losses in the automotive sector were estimated between – 2.3 %, amounting to about 4 billion dollar, while retaliatory Chinese tariffs reduced US value added by 6.5 billion dollar (10.5 %), primarily in steel, aluminum, and soybeans. The chemical and transport-equipment industries each lost between 5–10 billion dollar in value added due to higher input costs (Bellora & Fontagné, 2019).

China, the world's largest importer of soybeans, responded by subsidising domestic production in its northern provinces and promoting reduced meat consumption under environmental and health campaigns. These policy shifts altered production costs and supply-chain dynamics in global agricultural markets . The Chinese manufacturing sector, particularly computers, telecommunications, and office machinery, was hit hardest.

According to UNCTAD (2020), Chinese exports of communication equipment fell by 15 billion dollar, while industries such as chemicals, furniture, and precision instruments also recorded sharp declines. Electronics exports, facing average tariffs rising from 0.3 % to 9.3 %, dropped by 103 billion dollar, US car exports fell by 12 billion dollar, and non-ferrous metals and seeds for oil production also suffered . As a result, American firms operating in China were among the most affected by these retaliatory measures, with many experiencing price reductions of up to 8% to remain competitive in the medium term.

4. CONCLUSION

This study has examined the profound implications of the US–China trade war (2016–2025) on global foreign direct investment (FDI) patterns, both geographically and sectorally. The findings confirm that the conflict has not only disrupted global trade dynamics but has also reshaped the spatial and structural configuration of international investment flows, accelerating a broader transition toward regionalization, diversification, and technological realignment.

At the geographical level, the analysis demonstrates that multinational enterprises (MNEs) have significantly redirected their investments toward politically stable and geopolitically neutral economies, particularly in Southeast Asia (Vietnam, Indonesia, and Malaysia) and Latin America (Mexico and Brazil). This trend supports Research Hypothesis 1, which posited that the U.S.–China trade war would lead to a redirection of FDI toward countries exhibiting greater political and economic stability. The China+1 strategy, which became a central feature of corporate investment planning, exemplifies this reorientation, as firms sought to mitigate tariff exposure, supply-chain fragility, and political risks.

At the sectoral level, the evidence equally supports Research Hypothesis 2, which proposed that the trade war resulted in a decline of FDI flows into sectors most adversely affected by restrictive measures. Traditional manufacturing industries, such as automotive, steel, and consumer electronics, experienced sharp contractions in cross-border investment. In contrast, technology-intensive sectors, including semiconductors, digital infrastructure, and renewable energy, emerged as preferred destinations for new investment. This shift reflects a structural transformation in the

global economy, driven by digitalization, sustainability imperatives, and the need for technological autonomy.

Furthermore, the comparative evolution of FDI flows in the United States and China illustrates a divergent trajectory: while the US succeeded in attracting renewed inflows after 2020, aided by policy incentives and advanced technological ecosystems, China faced a steep decline in 2023–2024 as investors diversified away from regulatory and geopolitical uncertainty. This outcome underscores the trade war's asymmetric effects and the growing fragmentation of global investment patterns.

Overall, the empirical findings validate the central research assumption that the US–China trade war acted as a structural catalyst, accelerating ongoing transformations in global investment geography and sectoral orientation. Rather than a temporary disturbance, the conflict has entrenched a new logic of international investment, one defined by strategic selectivity, regional resilience, and sustainability orientation.

In conclusion, the trade war's legacy extends far beyond its immediate economic disruptions. It has inaugurated a new era of FDI dynamics, where multinational corporations increasingly prioritize risk mitigation, political predictability, and technological sovereignty over cost-efficiency alone. The emerging global investment landscape is thus characterized by regionalized production networks, diversified investment hubs, and heightened alignment with the digital and green transitions. These trends will continue to shape the architecture of the global economy in the decade ahead, marking a definitive shift from efficiency-based globalization toward resilience-based regionalization.

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