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US-China tensions, US partisan conflict, and global oil prices: scapegoating?

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ABSTRACT
This study examines the relationship between US-China tensions, US partisan conflict, and global oil prices over the past 20 years. Using lag-augmented local projections and time-varying local projections, empirical evidence supports the scapegoating hypothesis. In the scapegoating hypothesis, an increase in US partisan conflict leads to a rise in US-China tension and a reduction in global oil prices in the medium term. This research highlights a new channel through which the domestic economy can be impacted by geopolitical tensions.

KEYWORDS
US-China tensions; US partisan conflict; global oil prices; local projections; time-varying local projections

JEL CLASSIFICATION
F40; F50; F60

I. Introduction

Following the 2016 US presidential election and the initiation of the trade war at the end of 2017, it became evident that geopolitical relations between the United States and China were central to the global economy. Since then, numerous studies have focused on examining how US-China tensions influence global trade and oil markets (Afonso, Mignon, and Saadaoui 2024; Cai, Mignon, and Saadaoui 2022; Du et al. 2017; Mignon and Saadaoui 2024). These studies indicate that US-China tensions may affect China's trade relationships. Specifically, Afonso, Mignon, and Saadaoui (2024) demonstrate that trade between China and its primary trading partners is contingent upon favourable geopolitical relationships. Du et al. (2017) similarly found that political relations shocks have short-term effects on trade ties between China and its main trade partners.

Beyond trade considerations, the literature has also explored the impact of these tensions on oil markets. Cai, Mignon, and Saadaoui (2022) suggest that geopolitical tensions between the US and China could pose threats to global economic growth, leading to reduced oil demand and prices. Mignon and Saadaoui (2024) extend this analysis by investigating the impact of US-China political tensions and specific geopolitical risks related to China on oil market dynamics. Their findings indicate that a deterioration in US-China relations may result in lower oil prices due to diminished growth prospects.

Cai, Saadaoui, and Uddin (2024) investigate how US-China political tension affects US partisan conflict in the oil market. They propose that geopolitical tensions may influence oil markets through partisan conflict. The identified causal relationship can be called the 'scapegoating' hypothesis following the suggestion of Cai, Saadaoui, and Uddin (2024): rising US partisan conflict heightens US-China tension to gain electoral advantage, as explained in Borg (2024).[1]

Using a geopolitically augmented oil model based on Kilian (2009) and estimated with lag-augmented local projections Jordà and Taylor (2025) from January 1993 to December 2024, we found empirical evidence supporting the scapegoating hypothesis. Two different global crude prices were considered to evaluate the spread between Brent and WTI crude oil prices. Additionally, three different proxies for global economic conditions were used (Baumeister and Hamilton 2019; Baumeister, Korobilis, and Lee 2022; Kilian and Zhou 2018). Our study is the first to explore the impact of the US partisan conflict and the global oil price level. We also provide

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[1]Borg (2024) does not explicitly use the term 'scapegoating' in his research.

for the first time evidence showing that the negative impact of US partisan conflict change on the global oil price is time-varying with elasticities that become very negative during episodes of acute political tensions.

Under the scapegoating hypothesis, a 1-point rise in US partisan conflict leads to an approximately 0.3-point increase in US-China tension. It also resulted in a medium-term decrease in global crude oil prices by 0.2 U.S. dollars per barrel. These effects are sizable, since the average monthly variation of global crude oil prices is around 0.14 U.S. dollars per barrel.

The following section describes the data and the empirical framework, with a focus on the US-China tension index and the US partisan conflict index. Section III presents the empirical results supporting both the scapegoating hypothesis. The final section provides the conclusion.

II. Data and empirical framework

From January 1993 to December 2024, I analyse key variables affecting global oil markets, including US-China tensions and the Partisan Conflict. Figure 1 shows three significant drops in global oil prices: post-GFC in 2008, the 2015 commodity crash, and after the COVID-19 crisis in 2020—all correlated with rising US-China tensions. Additionally, the Brent-WTI spread has increased since 2010. Figures 1 and 2 illustrate the US-China tension index (UCT) and the US partisan conflict index (PCI). The UCT index follows the Economic Policy Uncertainty index model and focuses on bilateral issues, while the PCI is based on the frequency of articles on political disagreement in the U.S.

Figure 2 shows that the UCT spikes during high-tension events like the Belgrade Embassy Bombing (1999), Hainan Island incident (2001), Beijing Olympics (2008), and the start of COVID-19 (2020). The PCI rises during major disagreements on US policies, such as the 2013 government shutdown and the 2016 Trump election. Besides, it plateaus at high levels after COVID-19 began.

Figure 3 shows three measures of global economic activity and global oil production. The first is an index averaging world industrial production in major OECD and six non-OECD countries (WIP) created by Baumeister and Hamilton (2019). The second is a proxy for shipping volume in global industrial commodity markets (IGREA) introduced by Kilian and Zhou (2018). The third is the global economic condition index (GECON) computed by Baumeister, Korobilis, and Lee (2022), which includes more dimensions than WIP and IGREA and better captures the deterioration of global economic conditions during COVID-19. Global oil production saw a sharp reduction during the pandemic.

We estimate equation (1) with the following lag-augmented local projection model, following Jordà and Taylor (2025):

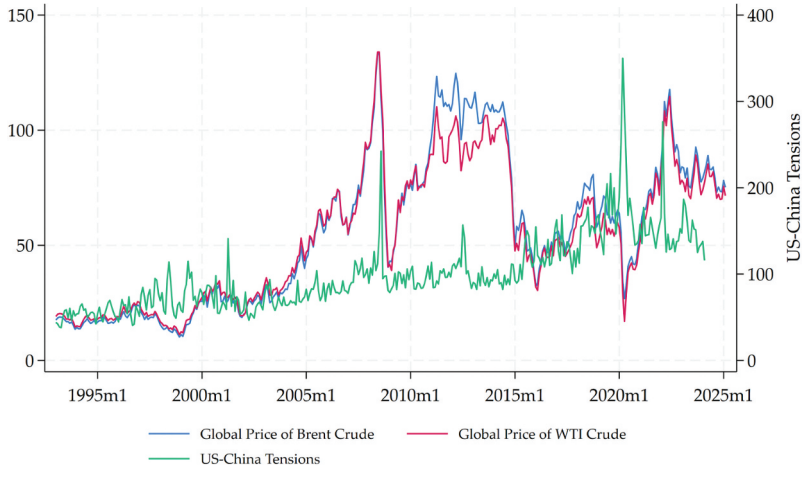

Figure 1. Global oil prices and US-China tensions. Source: IMF and Rogers, Sun, and Sun (2024).

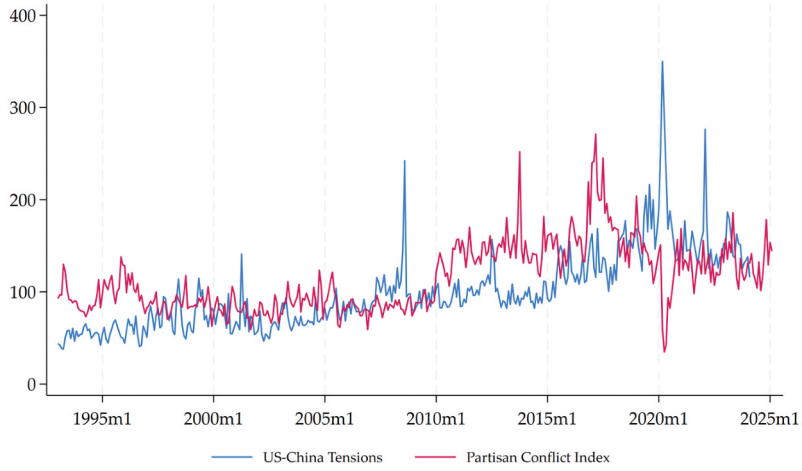

Figure 2. US-China tensions and partisan conflict index. Source: Rogers, Sun, and Sun (2024) and Azzimonti (2018).

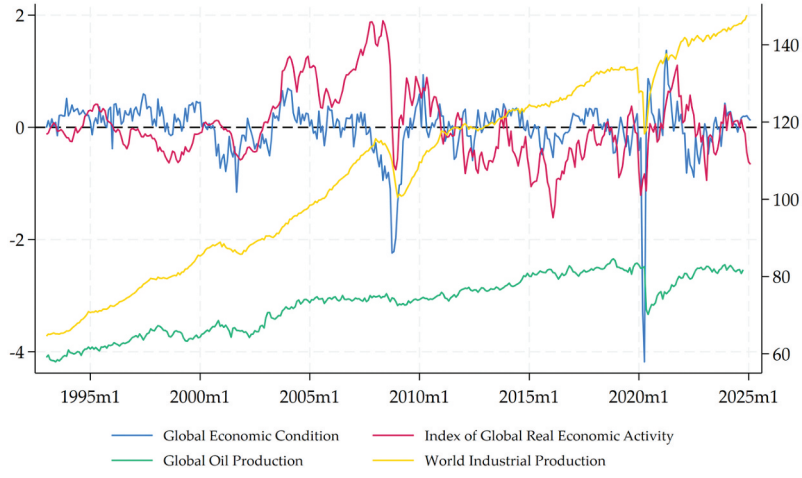

Figure 3. Global Economic Condition and oil production. Source: Baumeister and Hamilton (2019), Kilian and Zhou (2018), and US Energy Information Agency.

$$GOP_{t+h} = a_h + \beta_h s_t + \lambda_h s_{t-1} + \sum_{j=1}^{2} \gamma_h' \boldsymbol{x}_{t-j} + \nu_{t+h};$$
$$h = 0, 1, \ldots, H; IRF(h) = \beta_h. \quad (1)$$

The target variables, GOP for global price of oil, are alternatively the Brent and WTI global crude oil prices in U.S. dollars per barrel computed by the IMF.[2] The vector of control variables $\boldsymbol{x}$ is the following[3] UCT is the US-China tension index of Rogers, Sun, and Sun (2024); an increase in the index measures a deterioration of the relation between the US and China; PCI is the Partisan Conflict index from Azzimonti (2018); an increase in the index means that degree of political disagreement among U.S. politicians at the federal level increases; PROD is the oil production measured in millions of barrels from the US EIA[4]; GECON is the Global Economic Condition index from Baumeister, Korobilis, and Lee (2022); a negative value indicates bad economic conditions.

In Appendix A, we use a bi-variate VAR(1) with the UCT and the PCI. The Granger-causality test indicates that the null hypothesis that the US partisan conflict index does not Granger-cause the US-China tension is rejected at the 1% level

[2]We use the following series from the FRED website: POILBREUSDM and POILWTIUSDM for the Brent and WTI global crude oil prices, respectively.
[3]The control variables are entered in the form shown in Figures 2 and 3.:
[4]We use this specific series available on the website of the US EIA: INTL.57–1-WORL-TBPD.M.

Table 1. Summary statistics.

Variables	Acronym	Observations	Mean	SD	Min	Max
US-China Tensions	UCT	374	100.00	42.55	37.98	349.9
Partisan Conflict Index	PCI	386	114.70	36.52	34.74	271.30
Global Price of Brent Crude	BRENT	386	56.20	32.50	10.16	133.60
Global Price of WTI Crude	WTI	386	53.92	29.14	11.27	134.00
Global Oil Production	PROD	382	73.04	7.22	57.93	84.59
Global Economic Condition	GECON	386	−0.01	0.48	−4.18	1.37
Index of Global Real Economic Activity	IGREA	386	0.04	0.62	−1.61	1.90
World Industrial Production	WIP	384	107.30	23.79	64.61	147.70

Source: authors' calculations.

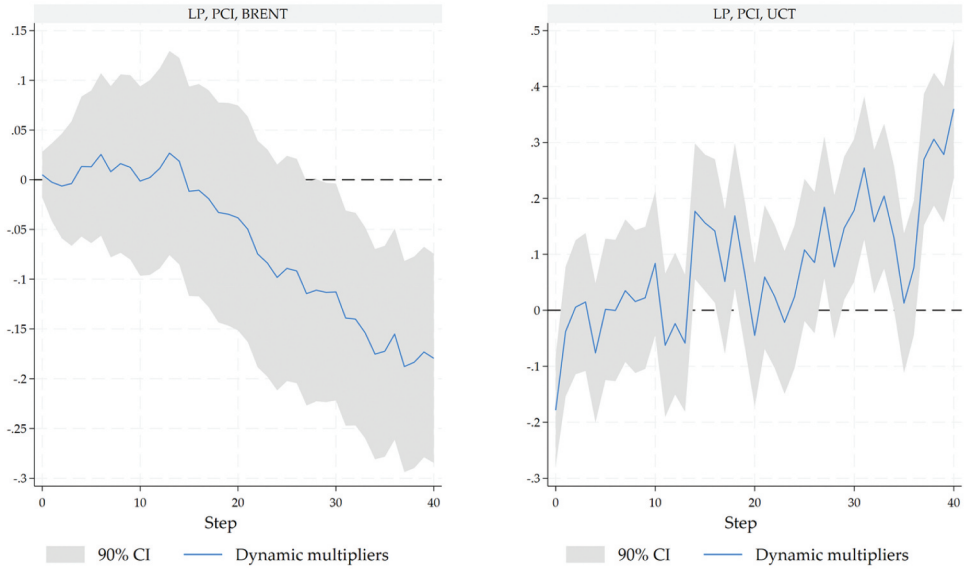

Figure 4. Global Brent price and US-China tension reaction to a rise in US political disagreement. Source: authors' calculations. The shock is a unit-shock on the PCI. On the left, we have the reaction of the target variable, the global oil price. On the right, we have the reaction of one of the controls, the US-China tension.

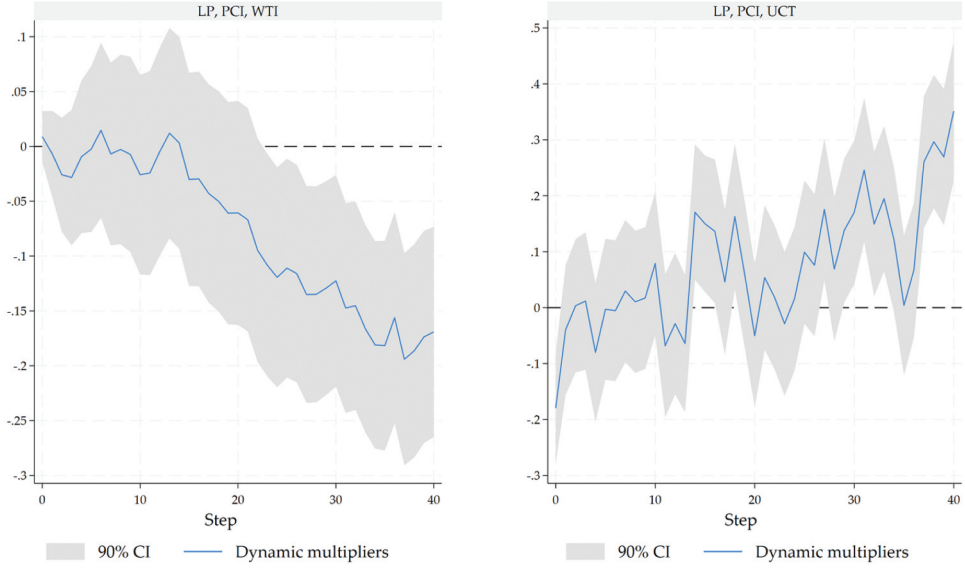

Figure 5. Global WTI price and US-China tension reaction to a rise in US political disagreement. Source: authors' calculations. The shock is a unit-shock on the PCI. On the left, we have the reaction of the target variable, the global oil price. On the right, we have the reaction of one of the controls, the US-China tension.

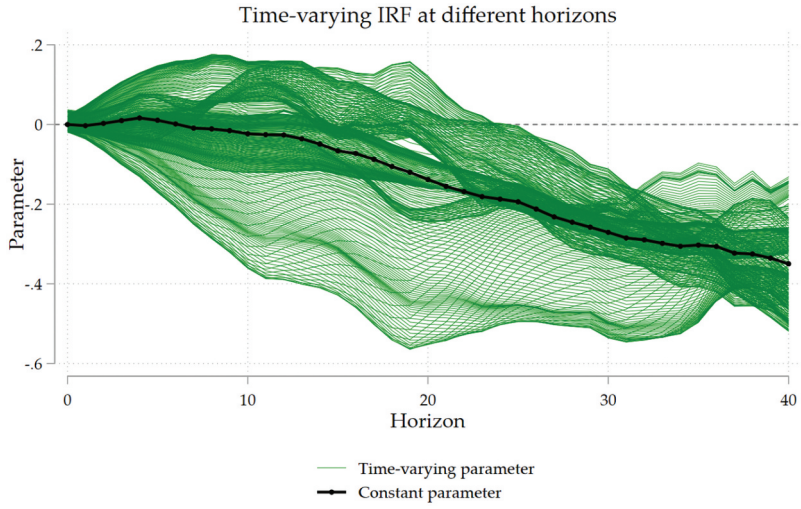

Figure 6. Global Brent price time-varying reaction to a rise in US political disagreement. Source: authors' calculations. The shock is a unit-shock on the PCI.

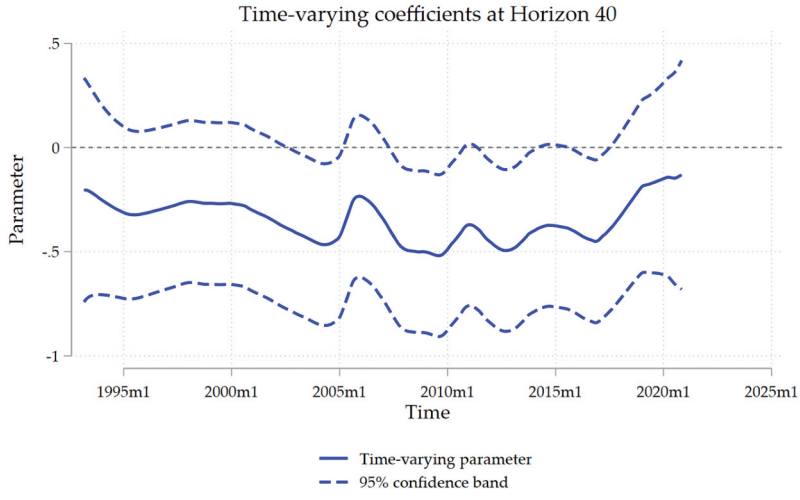

Figure 7. Global Brent price time-varying reaction to a rise in US political disagreement after 40 months. Source: authors' calculations.

$\left(\chi^2_{GC} = 18.59\right)$. We found no support for the reverse causality in Table A1 and Figure A1. Consequently, we test the *scapegoating* hypothesis (shock on PCI):

$$\boldsymbol{x} = (UCT, PROD, GECON, GOP)' \text{ with } s = PCI. \quad (2)$$

In Appendix B, the Global Economic Condition variable, GECON, is replaced by the world industrial production (WIP, Baumeister and Hamilton 2019) and the Index of Global Real Activity (IGREA, Kilian and Zhou 2018). Table 1 provides summary statistics for all the variables involved in the analysis.

III. Results and discussion

Figures 4 and 5 provide empirical evidence for the scapegoating hypothesis. An increase of 1 point in US political disagreement correlates with a 0.3-point rise in US-China tensions and a $0.2 decrease in global crude oil prices per barrel in the medium term. This delayed response likely stems from the time it takes for US partisan disputes to affect US-China relations. Figures B1–B3 in Appendix B confirm these findings using different proxies for global economic conditions, such as WIP and IGREA.

In the following, we use the time-varying parameter local projection proposed by Inoue, Rossi,

and Wang (2024) to open the possibility of time-varying effects. We estimate the following equation (2):

$$GOP_{t+h} = a_{t+h} + \beta_{h,t+h} s_t + \lambda_h s_{t-1} + \sum_{j=1}^{2} \gamma_h' \boldsymbol{x}_{t-j} + \nu_{t+h}; \quad h = 0, 1, \ldots, H; IRF(h) = \beta_{h,t+h}. \tag{3}$$

The results in Figures 6 and 7 confirm our main analysis. At the 40-month horizon, the Brent price reaction to US partisan conflict is stronger and significant at the 5 percent level before US elections and after the first election of Donald Trump.

IV. Conclusion

This research presents new evidence on the relationship between US-China tensions, US partisan conflict, and the global oil price. The findings support the scapegoating hypothesis, indicating that an increase in US partisan conflict leads to heightened US-China tensions and a medium-term decrease in the global oil price. These results highlight a novel channel through which geopolitical tensions impact the domestic economy. In an era of political and geopolitical turbulences, our results may be useful for policymakers and market participants, that are interested in understanding the current trends in the oil markets. Besides, it may also be useful for the literature on the oil market modelling by adding political and geopolitical variables into the analysis. Future studies may investigate the effects of US-China tensions on US private investment, which is beyond the scope of this research.

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Author contributions

CRediT: **Yifei Cai:** Conceptualization, Data curation, Formal analysis, Investigation, Methodology, Project administration, Resources, Software, Supervision, Validation, Visualization, Writing – original draft, Writing – review & editing; **Jamel Saadaoui:** Conceptualization, Data curation, Formal analysis, Investigation, Methodology, Project administration, Resources, Software, Supervision, Validation, Visualization, Writing – original draft, Writing – review & editing.

Disclosure statement

No potential conflict of interest was reported by the author(s).

Data availability statement

The data and the code are available upon request.

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Appendices

Appendix A. Bivariate VAR with the PCI and the UCT

Table A1. Granger causality Wald tests in a bivariate VAR(1).

		χ^2_{GC}	Degree of freedom	P-value
UCT does not Granger cause	PCI	5.98	2	0.09
PCI does not Granger cause	UCT	18.59	2	0.00

Source: authors' calculations. Note: The null hypothesis is that X does not Granger-cause Y cannot be rejected.

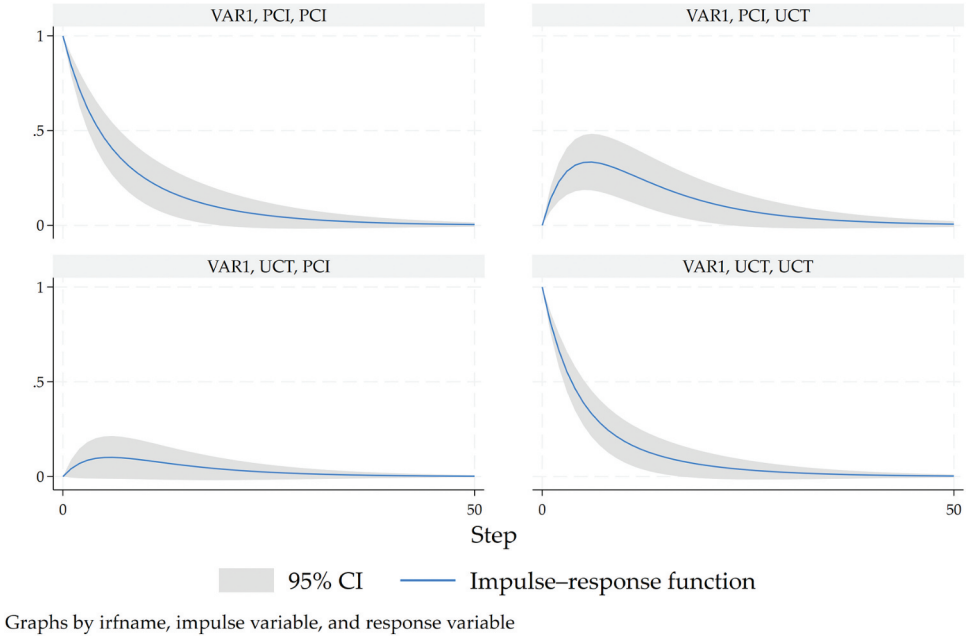

Figure A1. Impulse response function of US political disagreement and US-China tensions in a bivariate VAR(1). Source: authors' calculations. The upper left panel is the reaction of PCI following a unit shock on PCI. The upper right panel is the reaction of UCT following a unit shock on PCI. The bottom left panel is the reaction of PCI following a unit shock on UCT. The bottom right panel is the reaction of UCT following a unit shock on UCT.

Appendix B. Robustness check for the scapegoating hypothesis

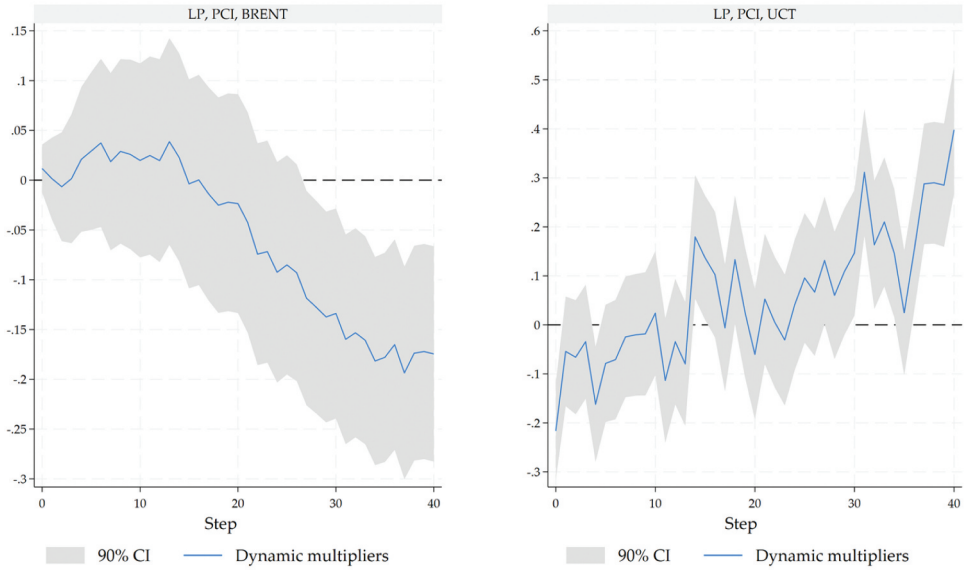

Figure B1. Global Brent price and US-China tension reaction to a rise in US political disagreement (extended lags for the controls to 12 months). Source: authors' calculations. The shock is a unit-shock on the PCI. On the left, we have the reaction of the target variable, the global oil price. On the right, we have the reaction of one of the controls, the US-China tension.

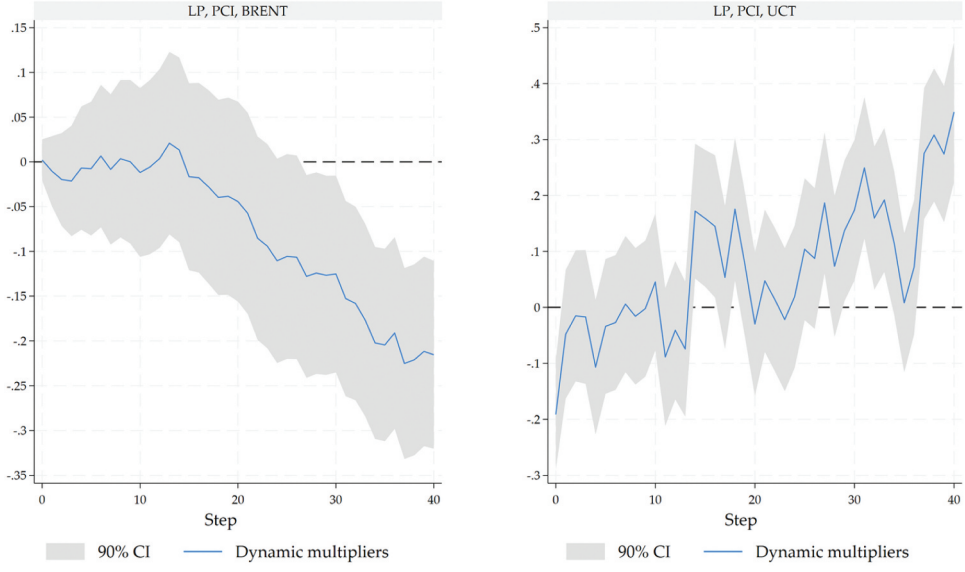

Figure B2. Global Brent price and US-China tension reaction to a rise in US political disagreement (world industrial Production). Source: authors' calculations. The shock is a unit-shock on the PCI. On the left, we have the reaction of the target variable, the global oil price. On the right, we have the reaction of one of the controls, the US-China tension.

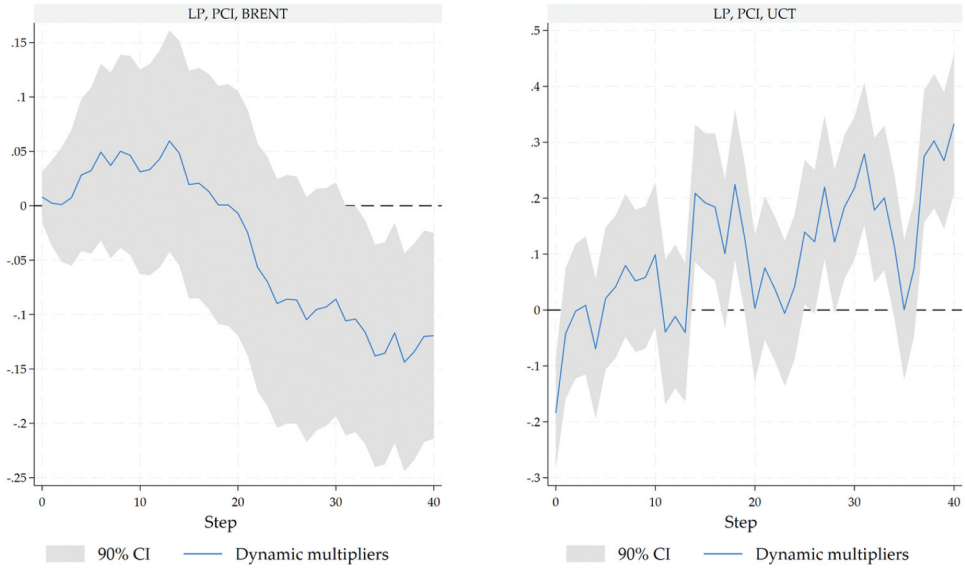

Figure B3. Global Brent price and US-China tension reaction to a rise in US political disagreement (index of global Real Activity). Source: authors calculations. The shock is a unit-shock on the PCI. On the left, we have the reaction of the target variable, the global oil price. On the right, we have the reaction of one of the controls, the US-China tension.