

US-China Trade War Effects on The Economy of The United States

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Abstract. Several significant imports, including solar panels, washing machines, steel, and aluminum, saw tariff increases in the United States at the beginning of 2018. It soon became clear that China was the target of US trade restrictions, despite the fact that these tariffs did not discriminate based on origin. The United States then increased tariffs on tens of thousands of Chinese goods in 2018 and 2019, concentrating on imports worth approximately \$350 billion. China targeted US shipments worth approximately \$100 billion as a response to numerous tax waves. The two sides agreed to stop increasing tariffs in January 2020; however, as of 2021, the existing tariffs were still in effect. The trade war stands out as one of the broadest and most significant shifts in US trade policy, despite the fact that the United States has historically been at the forefront of efforts to promote global tariff reductions. As the trade war progressed, economists attempted to assess its economic effects. A timeline of the major events and a summary of the reasons for the trade war from experts and analysts are included in this article. The effects of the trade war on the US economy are also discussed in this article. The conclusion suggests that the conflict has already had different effects on the US economy.

Keywords: Trade-war; Tariffs; Trade-Policies; Imports.

1. Introduction

China's economic growth has been rapid in recent decades, thanks to its accession to the World Trade Organization in 2001, which enabled it to gradually open its economy. China was able to benefit from the WTO agreement as a result of the implementation of some laws that allowed the nation to increase exports while also limiting the domestic impact of foreign firms through strict trade laws and standards [1]. According to Lipton [2], the current United States conflict with China was triggered by China's accession to the WTO. This conflict is made worse by the growing trade deficits between the two countries. China has taken steps since 2001 to gradually expand its economy, despite the fact that it maintains some of its most important sectors and engage in unfair trade practices [3]. Beijing's unfair trade practices are among the causes of the growing trade deficit, which continues to hurt American manufacturers. Lee [4] argues that past American administrations have used WTO rules to challenge China's unfair economic practices in order to gain a competitive edge. China has long abused import restrictions by subsidizing its main industries and protecting its IPR [1]. Despite this, both economies may suffer if protectionism measures are implemented. The Trump administration was concerned that imposing tariffs might halt China's rapid economic growth because the United States is the country's most important trading partner. China, on the other hand, has taken countermeasures that have an effect on the United States through rising costs for consumers. Additionally, research has shown that imposing trade restrictions unilaterally does not reduce trade imbalances or create employment.

The Trump administration has taken a number of steps to halt China's growth and take control of international trade in the Sino-US trade war. In particular areas, the two teams have made concessions and games. However, this does not mean that the United States will impose tariffs of 25% to 100% on all Chinese goods; the trade war will still have an impact on major American industries. In contrast to 2017, the real growth rate of U.S. GDP in 2018 was 1.8%, a decrease of 0.9 percentage points. This suggests that the growth of the US economy has slowed down. The Trump administration used some Chinese media to engage in unfair competition during Sino-US trade negotiations, further putting pressure on public opinion on both sides because of the multifaceted impact of the Sino-US

trade war. The actual scale of import and export tariffs on Chinese goods will be further reduced, as the US economy continues to grow to some extent. This article focuses primarily on how today's competing economic interests affect both countries' businesses and even the country's overall economic development. The primary objective is to investigate how trade wars affect businesses and nations, as well as what businesses should do to minimize losses and maintain operations during trade wars. First and foremost, a trade war between two nations will undoubtedly have an effect on businesses in both nations, whether in the form of national exports of imported goods or simultaneously in the form of raw materials, parts, or a commodity that must be constructed by multiple nations simultaneously with something else that will also have a significant impact. Both sides' economic growth will suffer severely as a result. The factors that led to the trade war, its duration, and the effects it had on the U.S. economy are all explained in detail in this article.

2. Factors Resulting in Trade-War

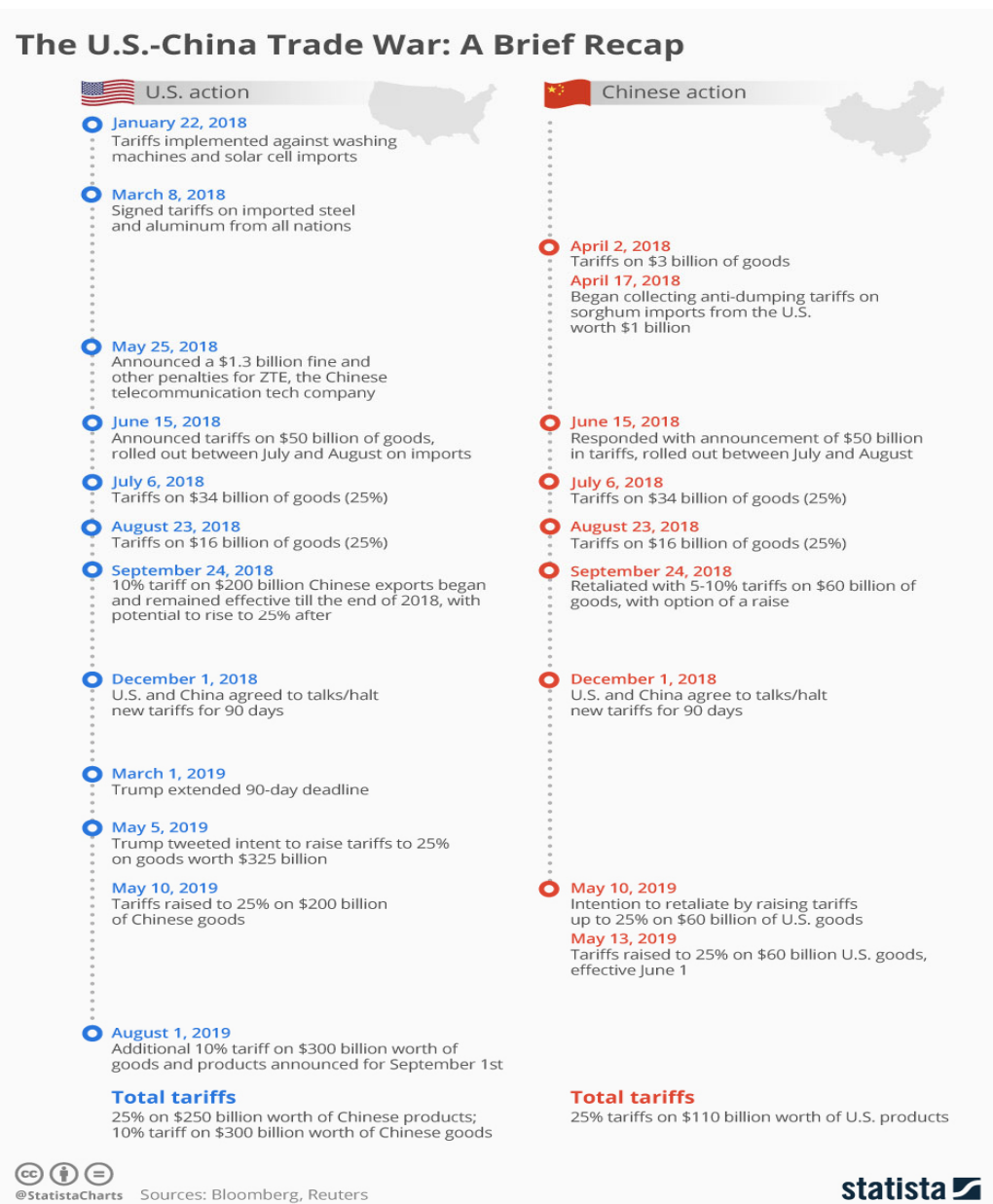


Fig. 1 US-China Trade War Timeline

Donald Trump has campaigned on the promise to "Make America great again." And he intended to accomplish this by focusing on a big trade disparity between his nation and China. China sold American consumers goods worth about 540 billion dollars in 2018. Most of them are made up of toys,

clothes, and cell phones. At the meantime, the US sent products worth of 120 billion dollars, including cars, soybeans, and airplanes, to China. As a result, the US's trade deficit with China in 2018 reached a new height of \$420 billion. That is a forty-fold increase from 1990. Donald Trump claimed that China is engaging in an unfair competition against the US. He sought to exert pressure on Beijing to enter into trade negotiation and set his own agreement. Trump demanded that China should supporting state-owned enterprises and stop devaluing its currency to increase exports. In addition, he charged that Beijing had infringed American intellectual property. Tensions between the two nations increase at the beginning of 2018. The US made the initial decision to increase tariffs on imports of Chinese solar panels. Aluminum and steel are the next goods on the list. By the end of 2018, nearly half of the products that the US imported from China were subject to additional tariffs as goods in the list of grew. In the upcoming the G20 conference, the Chinese and US presidents were going on meet on December 1 in Buenos Aires. The trade war has officially entered a truce. Nearly five months later, the two nations appear to be close to reaching a trade agreement, and Chinese diplomats are traveled to Washington for one more round of negotiations. But when it comes to Donald Trump, nothing ever went as planned. In addition to announcing new tariffs increase on Chinese imports, he also threatened to impose tariffs on all Chinese commodities that the US imports. A few days later, things got even worse between the two nations. The US targets Huawei, the world's largest telecom company, and virtually bans it from doing business with US firms. There is now a new front in the trade conflict, and many worry that a tech Cold War breaks out. Figure 1 states important events that occurred in US-China Trade War until 2019.

3. Effects of the Trade War on US Economy (Trade Balance & Employment Rate)

The most affordable labor and resources in China have contributed to the astounding currency growth of the nation, and dispatches have increased as more businesses outsource work to China. Nikita [5] asserts that recent financial advancements in China have advanced quickly due to efficient trade practices that have a focus on boosting trade, which is encouraging. The influence of China's product-focused trade on the country's GDP from 2009 to 2019 is depicted in Figure 1 below. These data demonstrate how significantly Chinese goods have contributed to the growth of the GDP. Although Chinese exports have fallen recently as the region's economy has changed to a buyer-based economy, Chinese exports are still a significant driver of development, according to Chong and Li [6]. There are worries that due to China's over reliance on trade in U.S. goods. There are concerns that China could become vulnerable to the enormous impact of the trade war on the currency because of its excessive reliance on trade in U.S. goods. China's resource costs are further reduced as a result of the vulnerabilities created by this trade pressure, which increases the flow of development finance from China. Due to their complete reliance on China's anti-dumping trade, the American people have also suffered as a result of the US-China trade war in terms of job loss and exploitation. Given the restrictions placed on Chinese exports in terms of product variety and tariff increases, it is normal for it to have an effect on U.S. consumers [7]. As a result, Waugh [8] proposes that numerous tests demonstrate an increase in buyer costs as a result of U.S. tariffs on Chinese goods. Additionally, U.S. labor claims that U.S. trade taxes will have a direct impact on the wages of product-related personnel like Chinese ranchers as a result of Chinese anti-dumping [7]. This is because China's retaliatory tariffs have a significant impact on the region. Rural goods and tools are primarily targeted by this retaliatory tariff. As a result, there is little doubt about the significant economic impact that the ongoing trade war between the United States of America and China will have on the two giants who are partners in crime. From 2007 to 2016, the irregular trade of American goods with Chinese imports is depicted in Figure 1. Based on this data, the United States/China trade is seriously imbalanced. Figure 1 shows that the United States' trade imbalance is worsening because of several factors. The United States' import/export differential is largely a result of the yuan's value [9]. The strength of the US dollar makes it possible for foreign workers and goods to be used. However, from the perspective

of companies operating in the global market, it is good for local and global businesses to have a healthy cash flow [10]. As more and more organizations move there in search of cheaper activities, the value of the Chinese currency has become a major driving force in the United States. The United States based companies have moved their operations to China, benefiting from lower property and labour costs. A lot of orders were moved to China for a long time because of the low exchange rate and the appreciation of the Chinese currency. This was great for American businesses. According to [11], creative factories and production lines are fundamentally affected by U.S. businesses' lowest costs of assets and labor in China. China's manufacturing costs are generally lower, though sometimes they are lower. Companies based in the United States are able to produce more goods, and customers in the United States pay less for them. This is an important safeguard against unfair trade practices between the two nations.

The retaliatory measures that China imposes on US businesses have a direct impact on pay, employment opportunities, and utilization in various US districts. The retaliatory taxes imposed on US horticultural products have had a negative impact on the farming area. Since around 2009, China has been the US agrarian area's most important commodity market outside of North America. In 2017, products were estimated to be worth close to \$20 billion annually [12]. During this time, soybeans, wheat, pork, sorghum, and fish were among the most popular exports from the United States to China. As a result, horticultural employment outcomes are likely to be significantly impacted by China's retaliatory duties on agricultural products produced in the United States. While the effects on costs affect everyone in the US, they only have a small impact on workers' pay. It seems that employment markets in the horticulture industry have been affected by China's retaliatory actions against US rural goods. Interestingly, workers who had previously benefited from the Chinese market and lost it as a result of levies are the hardest hit in the labor market [13]. Focused did some work between 2017 and 2018 to estimate the impact of China's retaliatory taxes on provincial employment and work market results. The goal was to estimate the prompted change in pay and creation potential open doors caused by the exchange war. For instance, China's retaliatory tax has prevented soybean ranchers from selling their produce [8]. The United States of America's exports of farm produce to China, its most important market. The US-China Exchange War has negatively affected U.S. employment and utilization statistics.

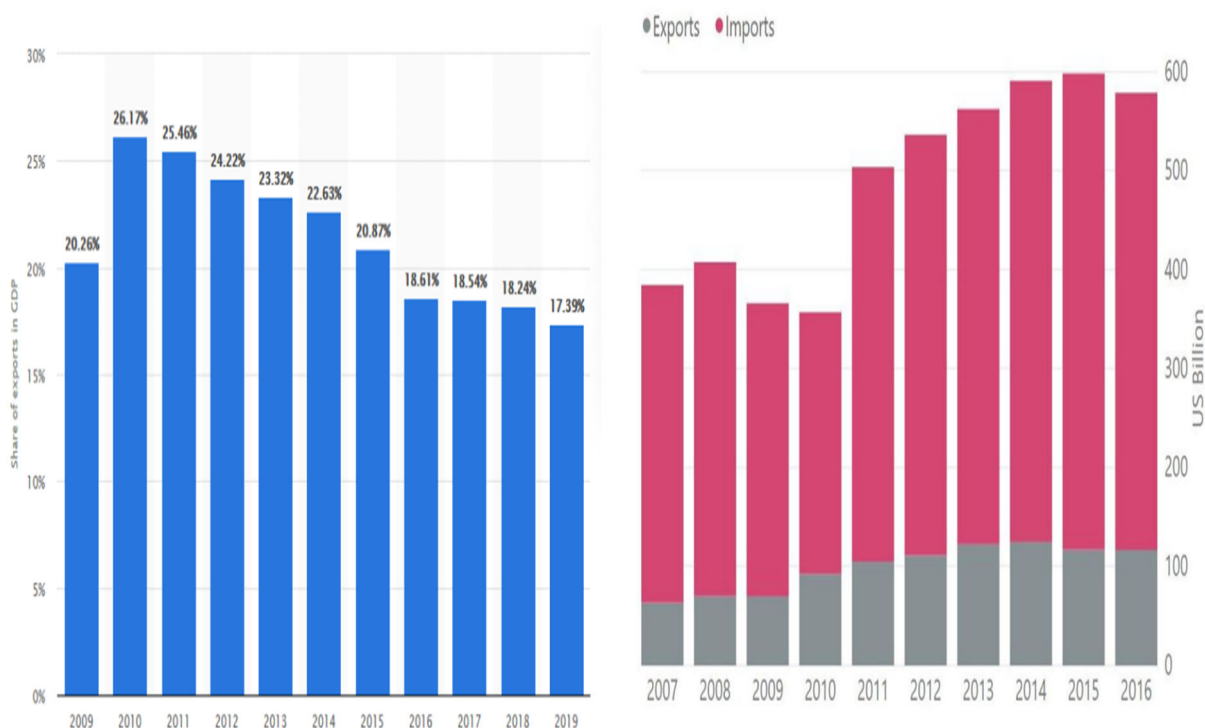


Fig. 2 US-China Trade scenario

3.1 Development Trend of World Trade

At present, the world economy and trade pattern is showing a "middle edge" pattern, and the structure of world economy has gradually developed from a tripartite confrontation between Europe, Asia and Africa to a "dual cycle" in the northern and southern hemispheres. On the one hand, the rapid growth of China's trade scale and export scale supports the common development and prosperity of the three major economies in Europe, Asia and Africa. On the other hand, China still has huge development space and potential in the countries along the route. The growth of China-Europe trade under the Belt and Road Initiative largely reflects the common development trend of the three major economic circles of China, Europe, China, Central and South America and North America. The growth of the world economy mainly depends on the common development momentum of the three major economies: first, the high quality of Chinese economic development has provided the three countries with an enormous market; second, Asia is a major driver of global economic growth. Third, developing countries are rapidly advancing industrialization, and progress and increased domestic spending power have created enormous demand for the rest of the world. With the acceleration of the global trade integration process and the improvement of the consumption capacity of developed countries, various links of the international industrial chain and value chain are gradually forming division of labor and cooperation. Exports from developing countries, and the labor and resource advantages of European and North American economies have created conditions for Asian firms to relocate to increase investment in Asian markets. At the same time, the economic development of the countries along the "Belt and Road" has also created these three conditions. The economy plays a strong leading role.

3.2 Sino-US interest rate spread widens

In order to promote the internationalization of the RMB, the Chinese government has taken a series of measures to promote China's interest rate liberalization reform, and China has also taken various measures to promote the process of RMB internationalization. On October 20, 2018, the central bank announced a reduction of RRR by 0.5 percentage points, releasing about 1.5 trillion yuan of long-term funds. It may bring a certain degree of monetary easing in the short term, but it will not bring the overall depreciation pressure of the RMB. In the long run, the RMB is stable and has an upward trend. In the long run, China's interest rate will remain low, but due to factors such as the weakening of the RMB exchange rate, falling interest rates in the domestic market, and expectations of exchange rate appreciation, the pressure on RMB depreciation will continue to increase.

3.3 Increased pressure on bilateral exchanges between countries

Because of the huge trade deficit with the United States, the pressure on bilateral exchanges with China will also increase. First, imposing additional tariffs on U.S. goods would increase the price of goods imported into the U.S., which in turn would increase the cost of U.S. imports. Second, the export of agricultural products to the U.S. decreased or became unsalable. Since the beginning of 2017, the growth rate of agricultural exports has dropped from 8% at the end of 2015 to 2.6% at the end of 2017. The dependence of agriculture on foreign countries has continued to rise, and the import volume of agricultural products has increased. From 35 billion US dollars in September 2014 to 41 billion US dollars, the foreign dependence of domestic agricultural products increased from 40% in September 2014 to 71% in September 2017; the dependence of agricultural products on foreign countries is high, which is closely related to the domestic market. of strong demand. Third, if tariffs are imposed on Chinese products, import costs will increase. First, due to the increase in tariffs, the tariff funds originally used for commodity exports will flow to the domestic market or the international market. Second, tariff changes will lead to higher import costs, which will affect domestic companies' costs and lower international market prices. Third, the increase in tariffs will also lead to higher prices of imported goods and lower prices in the international market. Fourth, the tariff increase is relatively large, the scope is relatively wide, the industrial level is relatively high, or it is closely related to people's lives, if the scope of tariffs on products is relatively large, it may

increase trade friction and disrupt the national order. Due to the pressure of bilateral exchanges, the normal implementation of international exchanges is affected.

3.4 U.S. exports hit hard

New issues have emerged in the US export market as my nation's economic development has entered a new phase, making it one of the main factors affecting global trade stability and coordination. The United States' largest export market is China. From the perspective of exports, China has played a significant part in the pattern of global trade ever since the volume of trade between China and the United States exceeded 400 billion dollars in 2017. China exported goods worth 279.7 billion US dollars to the US in 2017. The Chinese Ministry of Commerce announced that China exported \$158.9 billion to the United States in 2017. From January to May 2018, the United States exported \$182.3 billion to China. China's exports to the United States reached \$128.6 billion in June 2018, an increase of 6.2% year-over-year. The United States of America is China's second-largest export destination. China's total exports to the United States increased by \$124.6 billion from January to June of this year, or 5.1%, to \$277.6 billion in the first six months of 2018. China's total exports make up about 31% of all U.S. exports, with an annual growth rate of 4.8 percent (Figure 3).

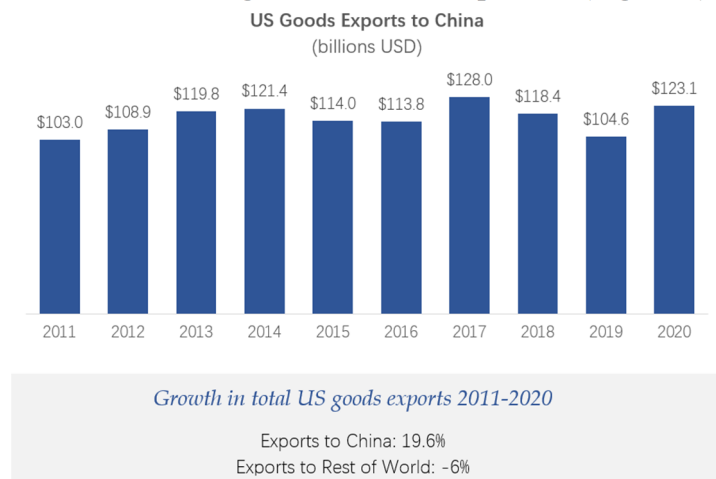


Fig. 3 The data of US exports to China

3.5 The United States faces the risk of being "replaced" in the global industrial chain

The trade relationship between the United States and China can be traced back to the 19th century when high-end manufacturing represented by steel was developed. In the 1970s, especially since the 1980s, the U.S. manufacturing industry began to shift to high-value-added manufacturing, but the overall U.S. economy still mainly relied on high-tech industries to maintain growth. From this perspective, the impact of Sino-US trade frictions is two-way. On the one hand, China's manufacturing industry has cost advantages and scale advantages, but it has obvious technological competitive advantages in some fields. Industries such as smartphones, integrated circuits, semiconductors, and pharmaceuticals have had a huge impact on the U.S. economy. The U.S. trade deficit has widened sharply since 2018, reflecting the enormous pressure these industries face in global markets. On the one hand, the Sino-US trade friction has triggered the "inverted pyramid" effect of the industrial chain. The gap between the technological level of China's production and processing links and the world's advanced level does not mean that foreign technology cannot replace China's industrial development level in the manufacturing and processing links. Not only that, the transfer of production or the substitution of production links is a two-way cycle process. That is, once certain components or parts of China's production and supply chain are replaced, other countries will need to supply them with new materials to meet demand and continue to operate to remain competitive. Once this substitution role disappears from the new process, China will face huge risks: on the one hand, it will rely on the high-tech and low-cost products provided by China to maintain its

dominant position in the industry, and on the other hand, it will face direct competition. The "inverted pyramid" effect of a large number of US equipment and components.

4. Summary

The financial markets may slow down, and the structure of international trade may be disrupted by the largest trade conflict in economic history. The nations can be divided into two groups that form massive alliances and simultaneously support China or the United States. The PRC's rapid economic expansion is the goal of the US foreign trade strategy currently in place. The current state of US-China trade relations is referred to as the Cold Trade War. The shared economic interests of the two nations are more significant than disagreements. The upcoming trade pact between the United States and China ought to include the so-called new trade architecture. It will oversee how tariffs, quotas, sanitary and phytosanitary certificates are used, as well as other rules regarding intellectual property protection and technology sharing.

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