

## **The US-China Trade War and Its Impact on the Global Economy**

**Dr.BELARIF RACHID<sup>1</sup>**

University of Oran 2- Algeria  
[belarif.rachid@gmail.com](mailto:belarif.rachid@gmail.com)

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### **Abstract :**

The trade war between the United States and China stands out as one of the most significant economic confrontations of the 21st century. It has escalated significantly since 2018, due to complex and multiple causes, most notably the large trade imbalance between the two countries and Chinese economic practices that include unfair competitive policies. In this war, the United States has employed several mechanisms, most notably imposing tariffs on Chinese goods and banning Chinese companies from US markets. This war has had a negative impact on the global economy, highlighting the fragility of the international trading system in the face of conflicts between major powers. This crisis reflects a state of trade uncertainty, a shift in the global economic balance of power, and the difficulty of separating politics from economics.

**Keywords:** global economy , Economic dominance, Trade war , Customs duties , protectionist policies , Trade Restrictions .

**Jel Classification Codes :** F4 , F2, F29,F5, F51

### **Introduction :**

With the fast-paced shifts in the global economic landscape, the trade war between the United States and China has become one of the most significant economic confrontations in recent decades. The conflict erupted in 2018 when the US government imposed tariffs on numerous Chinese products and accused Beijing of unfair trade practices such as forced technology transfer, intellectual property theft, and state subsidies for domestic companies.

The United States' long-held vision of maintaining dominance in the global economy is being challenged by Its growing trade imbalance with China and the rapid rise of competitive Chinese high-tech firms are challenging America's position of economic dominance on the global stage., and rising Chinese exports. US authorities allege that China is exploiting the benefits of trade liberalization and its membership

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<sup>1</sup> Corresponding Author.

in the World Trade Organization to pursue unfair trade practices. Despite its commitments to open markets, China allegedly protects its domestic industries through government subsidies and other protective measures. Furthermore, the United States accuses China of deliberately devaluing its currency to boost exports, illegally obtaining scientific and technological know-how from US companies, violating intellectual property rights, and failing to comply with environmental standards.

Accordingly, this study aims to examine the following basic question:

What are the economic repercussions of the US-China trade war on the global economy?

The following sub-questions are posed to guide the investigation of the main research question :

- What are the main reasons behind the trade war between the United States and China ?
- What were the key methods and strategies used in the trade war between the United States and China ?

The main goal of this study is to explore the impact of the trade war between China and the United States on the global economy. In addition, it aims to achieve the following objectives :

- The trade war was driven in part by the United States' desire to counter China's growing economic and technological dominance.
- The most prominent mechanism of the trade war was the United States imposing high tariffs on Chinese imports in response to the trade deficit.

**Study objectives :** This study is based on a set of main objectives, which can be summarized as follows:

1. Examine the reasons behind the trade war between the United States and China, focusing on the key economic factors that fueled the rising tensions between the two nations.
2. Identify the mechanisms and policies pursued by both sides during the trade war, such as the imposition of tariffs, investment restrictions, and technology export bans.
3. Assess how the trade war has affected the global economy, particularly in areas like trade flows, foreign investment, financial markets, and global supply chains.
4. Measure the extent to which developing and emerging countries are affected by the trade war, especially those that rely on trade with the United States or China.
5. Draw lessons from this trade crisis and propose recommendations to mitigate the impact of future trade wars on the global economy.

**Importance of the Study :**

The significance of this study lies in the far-reaching consequences of the trade war between the United States and China, the two largest economies in the world. Its impact goes well beyond their bilateral relations, causing disruptions in global supply chains, slowing economic growth, and creating uncertainty across international markets. The importance of this research also stems from its endeavor to understand the economic and strategic dimensions of the conflict and examine its impact on developing and emerging economies, which are most affected by global crises.

This study contributes to bridging the knowledge gap regarding the nature of new trade conflicts and their unconventional tools, and provides policymakers and researchers with a scientific basis for understanding the new dynamics of the global economy in the context of an increasingly complex ecosystem.

**Research Methodology:**

This research relies on the descriptive-analytical approach, which is used to analyze economic phenomena by collecting data, describing facts, and interpreting them with the aim of arriving at logical and objective conclusions. This approach was employed to present the background to the US-China trade war, analyze its causes, mechanisms, and developments, and measure its direct and indirect effects on the global economy.

The research also monitors changes in key economic indicators (such as global trade, foreign investment, economic growth, and supply chains) before and during the trade war to assess the actual impact of this trade conflict on the global economy.

This study explores the following key topics :

- The historical background of the trade war between the United States and China .
- The underlying causes that led to the escalation of the trade conflict between the two countries .
- The strategies and mechanisms used by both the United States and China throughout the course of the trade war .
- The consequences and broader impacts of the US-China trade war on both nations and the global economy .

**1- History of the Trade War :**

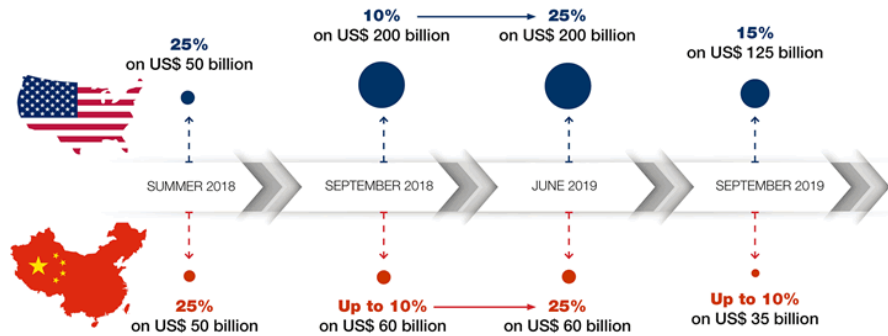
In 1979, the United States and China normalized their relations as Chinese policymakers, led by Deng Xiaoping, sought to promote international trade and investment. In 1986, Beijing applied to rejoin the General Agreement on Tariffs and Trade, the predecessor to the World Trade Organization (WTO). After lengthy negotiations with the United States and other WTO members, China joined the organization in December 2001. As a condition of membership, Beijing committed to a comprehensive set of economic reforms, including significant reductions in tariffs on imported goods, protection of intellectual property, and transparency in its laws and regulations. WTO membership guarantees “permanent normal trading relations,” giving American and foreign companies greater certainty that they can manufacture in China and export to the United States (CFR, 2025)

Since the middle of 2018, the United States and China have been caught in an escalating trade dispute, leading to several rounds of tit-for-tat tariffs. It began when the U.S. introduced trade restrictions on certain imports, including steel, aluminum, solar panels, and washing machines. These actions soon expanded to specifically target Chinese goods. By early summer of that year, both countries had imposed tariffs on roughly \$50 billion worth of each other’s products.

The conflict escalated in September 2018, when the US imposed an additional 10% tariff on \$200 billion worth of Chinese imports, prompting China to retaliate with tariffs on an additional \$60 billion worth of US imports . In June 2019, the United States escalated the trade war by increasing tariffs to 25%. China quickly responded by raising tariffs on some of the goods that were already being taxed. Then, in September 2019, the U.S. expanded its tariffs further, adding a 15% duty on nearly

all of the remaining \$300 billion worth of Chinese imports that had previously been spared (Trade and Trade Diversion Effects of United States Tariffs on China, 2019)

**Figure0 1.** Evolution of the US-China Trade War



Source: based on CENSUS ( 2025 )

Trade has grown rapidly in the wake of China’s rise: the value of US imports of goods from China has increased from about \$100 billion in 2001 to more than \$400 billion in 2023. This surge in imports is partly due to China’s important position in the global supply chain; Chinese factories assemble products for export to the United States using components from around the world. (For example, most components for smartphones, such as Apple’s iPhone, are imported from China, Japan, Taiwan, and South Korea) (CFR, 2025).

**2 . Causes of the trade war between the United States and China :**

The official start of the trade war was March 23, 2018, when Trump signed a "Presidential Memorandum Targeting China's Economic Aggression" and imposed tariffs on steel and aluminum. (Vinogradov, Salitsky, & Semenova, 2019) Trump's aggressive policy was reflected in the National Security Strategy adopted in December 2017. This strategy imposed restrictions on Chinese investment in American technology, tightened export controls, and expanded the list of dual-use products that could not be shipped to China. This prohibited American companies from doing business with listed companies, including ZTE, which has been accused of violating US sanctions on Iran . The trade war has several causes:

**2.1 US trade deficit :**

The U.S. trade deficit has fluctuated sharply since 2023, driven by demand shifts, supply chain adjustments, and retaliatory tariffs. While the overall deficit contracted in 2023, new tariffs and supply chain shifts led to a renewed gap in early 2025. This section tracks key changes in imports, exports, and the trade balance. The 2023 U.S. international trade deficit (goods and services) fell to \$773.3 billion in 2023 an 18.7% decrease from the record gap of approximately \$951 billion in 2022. This was the largest single-year deficit reduction on record, with import demand slowing and exports growing modestly (Kaplan, 2025). The table shows that :

**Table 1 :** US trade in goods with China through 2025

Month	Exports	Imports	Balance
January 2025	9,901.3	41,639.2	-31,737.8
February 2025	10,461.6	31,635.4	-21,173.8
March 2025	11,458.2	29,383.7	-17,925.5
April 2025	8,193.1	25,378.1	-17,185.0
<b>TOTAL 2025</b>	<b>40,014.2</b>	<b>128,036.3</b>	<b>-88,022.1</b>

Source : based on CENSUS (2025)

US-China trade data through April 2025 indicate a continued large trade deficit in China's favor, totaling approximately \$88 billion during the first four months of the year. However, there has been a gradual decline in the deficit, from \$31.7 billion in January to \$17.1 billion in April, reflecting a relative improvement in trade relations. This change is due to a significant decline in the value of imports from China, as well as a temporary increase in US exports during February and March before declining again in April. These shifts could be the result of multiple factors, including changes in trade policies, geopolitical tensions, or shifts in supply chains. Nevertheless, the persistence of this large deficit confirms that the trade relationship remains heavily tilted in China's favor, necessitating continued US efforts to achieve a greater trade balance.

### 2.2 Trade in goods versus services:

The goods trade deficit remains large despite a decline in 2023. The United States recorded a goods trade deficit of approximately \$1.06 trillion in 2023 (\$3.19 trillion in imports versus \$2.13 trillion in exports), partially offset by a \$288 billion surplus in services trade. The services surplus increased by 24% in one year as sectors such as travel and business services recovered, helping to narrow the overall deficit (Kaplan, 2025).

### 2.3 Currency manipulation :

During the 2016 US presidential campaign, Trump vowed to officially call China a currency manipulator. Up until recently, the U.S. Treasury also kept China on a special “watch list” of countries whose currency actions needed careful monitoring. (Treasury, 2019) . Under President Trump’s administration, Treasury Secretary Steven Mnuchin designated China as a currency manipulator in August. Although China has a history of manipulating the renminbi, direct interventions by the People’s Bank of China have been limited in recent years. Still, the recent depreciation of the renminbi against the dollar has helped boost China’s exports and, consequently, While the recent drop in the renminbi has helped increase China’s trade surplus with the United States, the main factor behind this is actually the strength of the US dollar, which has been driven by President Trump’s fiscal and trade policies. In other words, The currency issue has turned into one more chapter in the ongoing US-China trade war. However, the dispute over currency is largely a secondary matter that underscores the wider economic effects caused by the trade

tensions (Petsinger & Wang, 2019). However, China's lack of transparency in the currency market warrants further scrutiny.

**2.4 Methods related to technology transfer, intellectual property, and innovation :**

China's approach to technology transfer, intellectual property, and innovation has been at the heart of the tariff escalations that weighed heavily on the U.S., Chinese, and global economies in 2018 and 2019. Following an investigation under Section 301 and a report from the U.S. Trade Representative's office, the U.S. imposed three rounds of tariffs on about \$250 billion worth of Chinese goods in 2018. China responded by raising tariffs on roughly \$110 billion of U.S. imports. Then, in June 2019, the Trump administration increased tariffs on \$200 billion of Chinese goods from 10% to 25%. In retaliation, China raised tariffs on \$60 billion of U.S. products that were initially targeted. (Bown & Kolb, 2022). In August 2019, the trade tensions between the two countries heightened, with both sides rolling out new rounds of additional tariffs. (Bown & Kolb, 2022). The Trump administration is gearing up to impose higher tariffs on an additional \$300 billion worth of goods, which would include nearly all the remaining imports from China (Reuters, 2019). The United States and China are working to settle these tariff issues through the World Trade Organization framework.

The Section 301 Report highlights the main concerns the United States has about China's trade practices (Marianne Schneider, 2019) :

**a . Foreign Ownership Restrictions :**

The U.S. believes that China's restrictions on foreign ownership, such as forcing companies into joint ventures and limiting how much foreign investors can own, create pressure for U.S. firms to transfer technology to Chinese companies .

**b. Technology Regime :**

The United States argues that when U.S. companies try to license their technologies, they're often pushed into deals that heavily favor the Chinese partners.

**c. Cyber Theft and Trade Secrets :**

The U.S. Trade Representative reports that cyber intrusions targeting American companies have allowed the Chinese government to gain unauthorized access to critical trade secrets and sensitive commercial data. These cyber thefts pose a serious threat to U.S. competitiveness, giving Chinese entities an unfair advantage in global markets .

**d. Foreign Investment :**

The U.S. sees China's strategic investments in American companies and technologies as a serious concern, especially when those moves seem aimed at gaining access to cutting-edge innovations and intellectual property. The current U.S. administration believes that these four areas of policy and practice have been weakened and are no longer working as they were originally meant to . The trade war prevents China from strengthening its military power. Markov believes it is absolutely unacceptable for the United States to allow China to achieve military superiority, even in the long term. Therefore, The United States is taking steps to protect its national security edge and to prevent China from accessing American technologies that could be used for both civilian and military purposes (Markov, 2018).

From the U.S. point of view, the reasons behind its protectionist policies not only toward China stem from both internal and external factors. These measures are intended to protect local industries by limiting foreign competition, but they could also result in reduced consumer spending across the country. but will also increase production volumes, particularly for steel and aluminum products, which are subject to higher tariffs. Besides supporting domestic producers, another internal factor is the consistently negative U.S. current account balance, which also plays a role in shaping these protectionist policies. Bilateral trade with the People's Republic of China is a significant factor affecting the growing US current account deficit. There are four key reasons behind the U.S.-China trade war. One major goal is to shrink the trade deficit between the two countries and encourage the return of American jobs (Zhao, 2019, p. 09) . In 2017, the U.S. had a total trade deficit of \$796 billion, with China alone accounting for \$376 billion nearly half of that amount (Vinogradov, Salitsky, & Semenova, 2019). The United States sees several issues in its trade relationship with the People's Republic of China, with the trade deficit being the most prominent. This imbalance has been growing for decades, despite reaching a historic low in May 2019. From the U.S. perspective, trade with China is not viewed as fair or balanced . China primarily imports products interconnected with the US, while the US imports finished Chinese products: "US mechanical and electrical products from China account for 50% of the top ten items in Sino-US trade. It is also noted that technological differences between China and the US in this area are not very large" (Deng, 2019) . Of all China's exports, around 19% are sent to the United States, while only about 8.3% of U.S. exports go to China (Statista, 2019). In 2018, U.S. exports to China dropped by 21% due to rising protectionist policies. However, Chinese exports to the U.S. fell by only 12% during the same period . (Bureau US Census, 2019) . One of the goals of the trade war is to help reduce the U.S. federal budget deficit. According to Dongsheng De, Gal Luft, and Diane Zhong, tariffs on Chinese goods are seen as a key revenue source to help balance the U.S. budget (Dongsheng, G. Luft, & Zhong, 2019) . The U.S. federal deficit has ballooned to over \$21 trillion, partly due to the tax cuts passed in December 2017. Meanwhile, China is in a stronger financial position, allowing its government to provide support to industries impacted by the trade war. In contrast, the U.S. continues to run a large budget deficit around 4% of GDP which is expected to grow in the coming years (Legrain, 2019) .

### **3. Understanding the Mechanisms of the US-China Trade Dispute :**

#### **3.1 Statistics on Retaliatory Tariffs :**

US tariff actions have prompted aggressive retaliatory responses from its trading partners, including China, the European Union, and Canada. These countermeasures now cover hundreds of billions of dollars of US exports, raising costs and deepening global trade tensions. Legal disputes and alliance negotiations have further complicated the situation.

China has responded aggressively to the new US tariffs. By April 2025, Beijing had imposed tariffs of 84% on all US imports, a massive retaliation after the US raised its tariffs on Chinese goods to more than 100%. China's average tariff on US products jumped to approximately 147.6% on a weighted average basis (compared to approximately 20% previously). Essentially, China now imposes tariffs on 100% of

US goods, compared to approximately 58% of US exports previously (Kaplan, 2025).

### **3.2 Technology export restrictions :**

China announced a ban on rare earth extraction and separation technologies on December 21, 2023. This has significant implications for the national security, economy, and national security of the United States. Rare earth elements are used in defense technologies, including missiles, lasers, vehicle-mounted systems such as tanks, and military communications. They are also used in computers, televisions, and smartphones, along with many clean energy technologies that are essential for decarbonization. China currently produces 60% of the world's rare earth minerals, but it processes nearly 90% of them, meaning it imports and processes these minerals from other countries. This has given it a near-monopoly. Benchmark Minerals Intelligence notes that the United States is particularly vulnerable to heavy rare earth processing restrictions, given that China produces 99.9% of them. The United States recognized this gap, but only effectively addressed it in the past few years through the following funding decisions (Baskaran, 2024):

-November 2020 : The U.S. government provided \$9.6 million under the Defense Production Act (DPA) to support MP Materials in developing light rare earth separation capabilities at its Mountain Pass mine in California the country's only active rare earth extraction site .

- February 2021: Lynas Rare Earths Ltd. received \$30.4 million in DPA funding to help establish domestic facilities for separating light rare earth elements .

- February 2022 : MP Materials was granted \$35 million by the Department of Defense to expand its operations at Mountain Pass to include the separation and processing of heavy rare earths, with the goal of creating a complete supply chain from raw extraction to finished magnet production all in one location .

- June 2022: An additional \$120 million in DPA funds was awarded to Lynas Rare Earths Ltd. to construct a large-scale facility dedicated to separating and processing heavy rare earth elements .

The United States' slow development of processing capabilities is likely to weaken its national, energy, and economic security for two main reasons (Baskaran, 2024) :

- China has advanced technical expertise in this field that other countries lack. For example, it holds a strong advantage in solvent extraction processing of rare earth elements, which is a complex technique that many Western companies find difficult to implement due to environmental contamination concerns .

- Although several separation, processing, and manufacturing facilities are currently under construction, it may take years before they are fully completed and operational

### **.3.3 Made in China 2025 :**

In general, the global economy stands to benefit from China's efforts to boost its innovation capabilities, as long as these efforts follow the principles of open markets and fair competition. However, the "Made in China 2025" strategy, as currently formulated, represents precisely the opposite (Zenglein, 2019) : The Chinese leadership actively intervenes in its domestic markets to support and promote Chinese companies, often at the expense of foreign competitors. This approach is especially clear in smart manufacturing and other high-tech sectors targeted by the "Made in China 2025" strategy. Fundamentally, the strategy is focused on replacing foreign technology with homegrown Chinese alternatives, aiming to reduce reliance

on imports over time, paving the way for Chinese technology companies to enter international markets. Signs of this intention are clearly evident in the "Made in China 2025" strategy. The strategy emphasizes terms such as "domestic innovation" and "self-sufficiency." The strategy aims to increase the share of Chinese suppliers in the domestic market for "key components and critical basic materials" to 70% by 2025. Semi-official documents related to the strategy set specific benchmarks for specific sectors: By 2025, China aims to produce 40% of the mobile phone chips used in its market, along with 70% of industrial robots and 80% of renewable energy equipment, domestically. To achieve these goals, government agencies at all levels are pumping significant sums of money into China's industrial future. The newly established Advanced Manufacturing Fund alone is worth 20 billion yuan, or approximately €2.7 billion. The National Integrated Circuit Fund has also received 139 billion yuan (€19 billion). These national-level funds complement a wide range of financing instruments at the provincial level. The financial resources are vast compared, for example, In contrast, the German government has provided just 200 million euros in federal funding so far for research into industrial technologies. Meanwhile, Chinese high-tech companies benefit from extensive government support, while foreign competitors operating in China often encounter significant barriers to market access and challenges in running their businesses (Zenglein, 2019):

-The tightly controlled IT market, the exclusion of foreign firms from local support programs, weak data protection, and the Chinese government's widespread collection of digital data all pose major concerns.

- As China's smart manufacturing sector continues to develop, it's likely that the government will further intensify its discriminatory practices against foreign businesses and market access restrictions in smart manufacturing.

However, at present, these barriers have not taken root, just as China has adopted discriminatory practices in sectors like services and aviation, it's expected to do the same in smart manufacturing as its capabilities grow. Although the "Made in China 2025" initiative is still in its early phases, there's still a chance to influence its direction and goals at least in certain industries. If the new U.S. administration follows through on the protectionist policies it promoted during the election campaign, this could strengthen Europe's position in future negotiations.

Keeping global trade and investment at stable, lower levels may become a shared strategic interest for both Europe and China. As a result, China's reliance on the European market will grow and the same goes for Europe's dependence on China. This interdependence could deepen, despite the ongoing tensions and disagreements between the two sides, this shift in the global economy in the medium term is likely to open new horizons for negotiating the terms of Sino-European economic relations, including in the field of smart manufacturing.

### **3.4 Special and Protective Tariffs 1980-2018 :**

#### **a. Special Tariffs and U.S. Protectionism, 1980–2018 :**

The United States has long used a form of targeted protectionism to deal with specific products, industries, and countries, applying these measures for different lengths of time. This protectionism has taken various forms — from tariffs to quotas on imports, or even voluntary export restrictions negotiated with trade partners. Overall, this approach has been a consistent part of U.S. trade policy when

dealing with problematic imports, whether from Japan and Europe in the 1960s and 1970s, or from emerging Asian economies like South Korea in the 1980s. The U.S. government's response to concerns about imports from China has followed the same familiar pattern. (Bown C. , 2019) . The US approach has relied on "special protectionism" through a variety of US trade laws and other ad hoc arrangements. In the late 1980s, U.S. tariffs on imports from China averaged between 5% (simple average) and 7% (trade-weighted average). Starting in 1995, as part of the Uruguay Round under GATT which later led to the formation of the World Trade Organization the U.S. agreed to broader tariff reductions. These reductions were also extended to Chinese imports. The US then implemented additional pluralistic tariff reductions upon implementation of the two information technology agreements concluded in 1997 and 2015, respectively. By 2017, ordinary US tariffs applied to imports from China were around 3%. Over the same period, "ordinary" tariffs imposed by China on imports from the US declined by a much greater amount. As Figure 1 shows, this is because Chinese tariffs started at much higher levels—that is, in the early 1990s, they averaged nearly 40%. By 2003, China had gradually implemented reductions negotiated through During its process of joining the World Trade Organization (WTO), China reduced its average tariff rates to around 10%. These rates continued to gradually decline, reaching approximately 8% by 2017 (Bown C. , 2019).

In short, , although both the United States and China have reduced their tariffs over the years, 2017 data indicates that their trade policies are still not fully reciprocal, with China continuing to impose higher tariffs than the United States. However, tariffs are not the only policy tool affecting trade between the two countries; other non-tariff barriers also play an important role.

#### **b. China's Use of Special Tariffs and Protective Measures from 1998 to 2018:**

Similar to the United States, China has applied special tariffs since it joined the World Trade Organization (WTO), often using similar legal reasons. However, many of China's special tariffs have been reactive or imposed in retaliation and not driven by the same domestic demands for greater protectionism as have occurred in countries like the United States. This wasn't just a one-time event in 2018 when the share of imports from the United States facing special tariffs jumped from 5% to over 70% but happened in several cases even before 2018 (Bown C. , 2019).

As its WTO accession negotiations drew to a close in the late 1990s and it began reducing its "ordinary" tariffs on imports from the United States and other countries, China adopted and started applying many of the same trade laws that the United States used to address harmful imports, such as antidumping measures, countervailing duties, and safeguards. Similar to the U.S., China has frequently relied on antidumping. For example, it imposed countervailing duties on certain imports from the United States , it typically applied them to products also subject to anti-dumping duties. First, by 2017, These special tariffs accounted for almost 5% of China's imports from the United States. The impact of these measures reached its highest point in 2011, when China imposed retaliatory tariffs specifically on imported automobiles and other products from the United States This retaliation was triggered by the United States' implementation of Section 421 of the Tire Protection Act, mentioned earlier, along with other U.S. measures like lodging formal complaints against China at the World Trade Organization. The average anti-

dumping and countervailing duties applied by China in 2018 on imports from the United States were 31.4% and 21.3%, respectively. These tariffs were noticeably lower than the typical rates the United States has applied in its trade cases against China (Bown C. , 2019).

### **3.5 US Trade Policy Towards China :**

The shift in the US approach to China in 2018 illustrates three important aspects of US disenchantment with the WTO (Bown C. , 2019) :

- The U.S. use of “national security” tariffs could be seen as a result of the WTO’s strict limitations on more traditional and widely accepted forms of special tariffs. When legal frameworks are too rigid, countries may look for alternative and sometimes controversial ways to protect their industries .

- The imposition of unilateral tariffs on China rather than resorting to the WTO’s formal dispute settlement channels demonstrated the US view that litigation over existing rules is an insufficient means of addressing the fundamental issues caused by China’s economic model have created significant challenges for its trading partners.

- The WTO’s inability to help advance US-China talks on establishing new rules highlights its limitations in addressing the evolving challenges between the two countries or trade-offs, whether through the Doha Round or otherwise, has led the United States to act unilaterally and deviate from established norms governing procedural responses. Another drawback is the choice to overlook the substantial costs linked to the 2018 measures. In fact, increasing evidence shows that the U.S. approach has led to both short- and long-term economic impacts on the global trading system. These costs are significant, and the main focus here is to shed light on some of the deeper political and economic worries the U.S. has regarding China, as well as the WTO, that led to the events of 2018 (Bown C. , 2019)

### **4 . The consequences of the US-China trade war :**

The repercussions of the trade war go beyond immediate market volatility and changes in trade flows, potentially leaving lasting impacts on the US and global economies, impacting growth, competitiveness, structural trade patterns, and the international financial system.

#### **4.1 The impact of the trade war on the US and Chinese economies :**

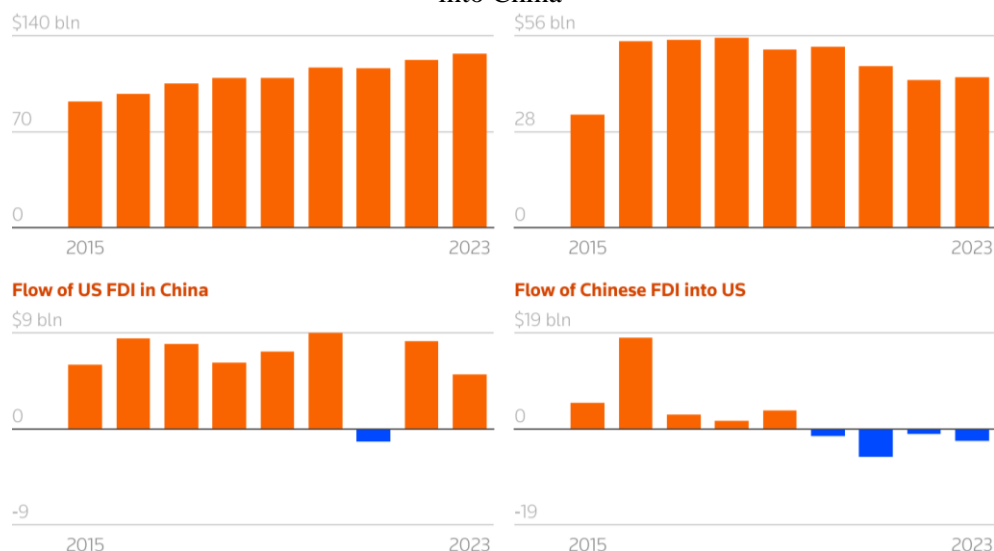
##### **a.National Security :**

US policymakers are increasingly concerned about China's attempts to spread misinformation and collect sensitive information about Americans. Fearing espionage, Washington has expressed concerns that US companies using Chinese technology could threaten US national security. Amid these concerns, President Trump proposed banning the Chinese social media app TikTok in his final year in office. In April 2024, President Biden signed a bill ordering TikTok's parent company, ByteDance, to sell TikTok to a US company, or China could impose a "bullying" ban. TikTok sued the US government, claiming the sale was unenforceable and violated the First Amendment. The Supreme Court ultimately upheld the ban, but Trump gave himself 75 days to review it on his first day in office, effectively blocking the ban. (CFR, 2025)

##### **b.Financing erosion :**

The divergence in the financial world is also growing .U.S. companies had around \$127 billion invested in China by 2023, but the pace of new investments is slowing down. On the flip side, Chinese investment in the U.S. fell to \$44 billion, marking a 16% drop since 2019 . Annual flows from the People's Republic of China have remained negative since 2020, meaning Chinese investors are withdrawing their funds from US projects. Western investors have maintained relatively limited exposure to the world's second-largest economy. The average allocation of global equity funds to Chinese assets peaked at just 3% in April 2015, highlighting a persistent hesitancy among international investors toward deeper engagement with China's financial markets . As of February 2025, the average allocation to Chinese assets had fallen to below 2%, according to data from the EPFR Fund Flow Tracker only a modest recovery from its early 2024 low. However, if China launches more aggressive economic stimulus measures, these allocations could begin to rise. (Reuters, 2019).

**Figure0 2.** The chart shows position and flow of Chinese FDI into US and US FDI into China



Source : selectUSA(2025)

**c .Intellectual property theft :**

US officials also worry that China's acquisition of critical US technology could bolster its military. US companies and officials have said this has been a condition for Chinese companies doing business in China, as a condition for technology transfer in exchange for software development and access to trade secrets. China's intellectual property is estimated to be worth between \$225 billion and \$600 billion annually, according to a 2017 policy opinion by the National Bureau of Asian Research (NBRAA). In China's state-run economic system, government policies often encourage companies to invest in technology and other capabilities. China's intellectual property laws have evolved over the past decades, with increased intellectual property rights and freedom of expression. (CFR, 2025).

**d.Human Rights and Labor Abuses:**

While the United States has temporarily ignored human rights abuses in China, American unions have continued to protest labor rights in China. These concerns have been fueled by China's aggressive trade agenda in Xinjiang, where millions of Uyghurs work. Beijing's 2020 national security law, which specifically curtailed Hong Kong's autonomy, is another concern; experts say the law allows foreign companies to conduct business in the city, a global financial center.

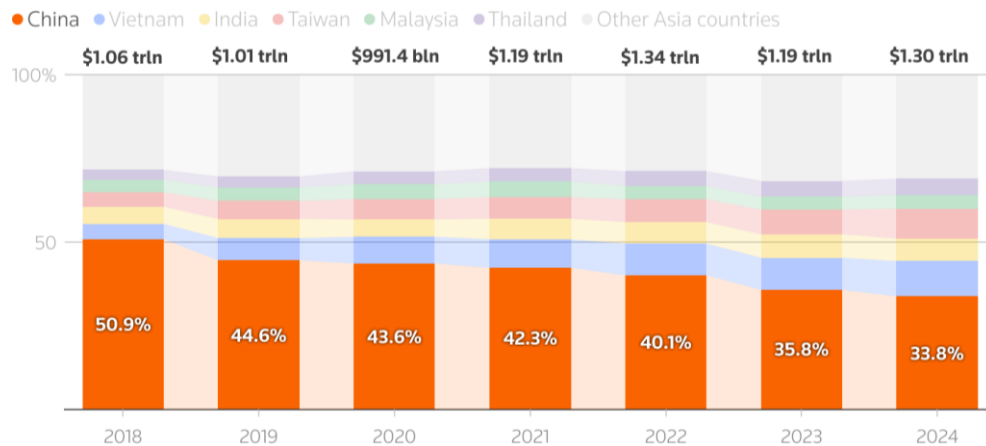
**e.- Government Support and State-Owned Enterprises :**

To achieve its economic goals, the Chinese government has provided financial support to many sectors, including renewable energy, with the goal of building leading national companies. Some experts view this support as wasteful, However, this level of government support can create obstacles in other countries where companies struggle to compete. The United States contends that many Chinese state-owned enterprises act as extensions of the government and, unlike private companies, make decisions that aren't driven by market forces .

**f. Commercial imbalances :**

The exchange of commodities is the main pillar of China -American relations. While Trump's first trade war failed in 2018 to end the United States' dependence on Chinese manufacturing industries, the president's increases for customs duties raised fees on most Chinese goods to at least 145 %. This warns of the collapse of a large part of the bilateral trade between the two countries, which is valued at \$ 582 billion, in the year 2024. The White House has exempted smartphones, computers and some other electronic devices, but it also studies the risks of national security arising from these supply chains that are largely dependent on China. This indicates that the customs duties for each sector will enter into force soon (Galani, 2025).

**Figure 03.** The bar chart shows China's share of US imports from Asia is shrinking



Source : International Trade Administration (2025).

Meanwhile, Trump fees are exposed to other countries, which are now a maximum of 10% until early July, Chinese exports to third countries, such as Vietnam, whose goods are exported to American consumers, at risk. According to the U.S. Statistical Office, China's share of U.S. imports dropped by 8 percentage points, falling to 13.4% between 2017 and 2024., while it now represents only a third of American

imports from Asia compared to half in 2018. However, the United Nations Trade and Development Organization data shows that its share of global goods exports increased from 12.7% to 14.2% during a period Similar, which indicates the possibility of redirecting goods to the United States through other states. This number may start to decline now (Galani, 2025).

One of the most notable immediate consequences has been a marked decline in bilateral trade between the United States and China, particularly in tariff-related goods. U.S. imports from China have declined significantly from their peak, with China's share of total U.S. goods imports declining from 22% in 2017-2018 to approximately 13-14% in early 2024. This decline has been most pronounced in goods subject to the highest tariff rates. Similarly, U.S. exports to China have been negatively impacted by retaliatory tariffs, although the purchase commitments in the Phase One agreement sought to reverse this trend. Total bilateral trade volume has declined significantly compared to pre-war levels (veryfystock, 2025) .

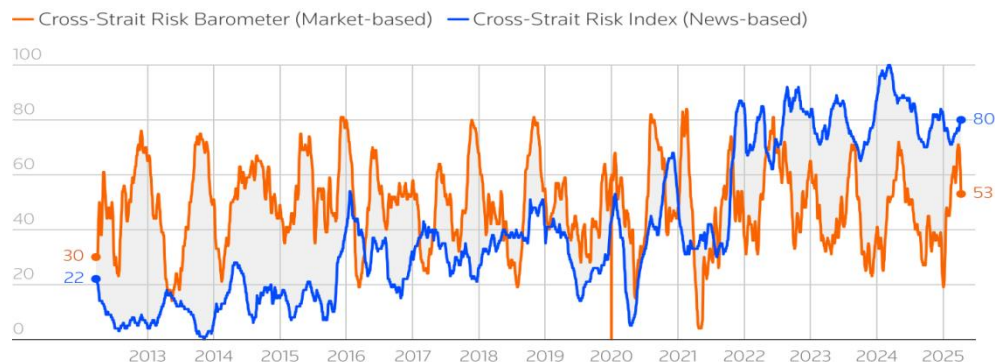
**g. Currency manipulation:** Many economists believe that China has artificially devalued its currency, the renminbi, over the past decade since joining the World Trade Organization by hoarding dollar bills. A weaker renminbi reduces the cost of selling Chinese goods abroad, while raising the prices of U.S. goods in China, making the United States more competitive in trade with China. During the first Trump administration, the U.S. government listed China as a trading partner for the first time in decades. (CFR, 2025)

**h. Rising Strains Over Taiwan :**

The Taiwan issue frequently shapes the overall relationship between the US and China. While the US officially follows the "One China" policy, recognizing Beijing's claim over Taiwan, the situation remains a key source of tension between the two countries, a democratically governed island. However, Washington could impose broad sanctions, or possibly use force, in the event of a Chinese invasion.

Goldman Sachs calculates a risk index that indicates geopolitical tensions between Taiwan and mainland China. This index has been on an upward trend since Trump announced the "Liberation Day" tariffs on April 2. Speculation is growing that Washington's trade war could escalate into a financial war and, ultimately, a real conflict involving the island. However, a market-based measure, derived from Taiwanese stocks, suggests there is less cause for concern so far (Galani, 2025) .

**Figure04.** A double line chart showing that the news-based measure of Taiwan risk has risen to historically high levels.



Source: factset factiva goldman sachs (2025) .

### i. Significant impact on prices:

The Congressional Budget Office estimates that current tariffs have raised overall U.S. consumer prices by about 0.5% (half a percentage point), a tax that actually reduces median real household income by about \$1,300 annually (Kaplan, 2025). Research also indicates that import tariffs have a nearly 100% impact on U.S. domestic prices. In other words, foreign exporters rarely bear this tax; rather, U.S. businesses and consumers pay it. Empirical studies indicate that tariff pass-through rates "often approach 100%," meaning that Americans perceive the value of the tariffs as being almost entirely added to import prices (Kaplan, 2025).

### 4.2 Effects on the global economy :

The trade war that began in 2018 has had significant and measurable economic consequences, altering trade flows, impacting prices and welfare, and affecting specific sectors and overall economic growth.

#### a.Trade Flows and Reconfiguration :

This decline in direct US-China trade has not necessarily translated into a large-scale reshoring of manufacturing to the United States. Rather, the evidence strongly suggests trade diversion and supply chain restructuring. US importers have increasingly relied on goods from alternative countries, with Vietnam and Mexico emerging as major beneficiaries, particularly in product categories where China has faced US tariffs. Studies analyzing global trade patterns have found that unaffected countries, on average, have increased their exports of tariff-affected products not only to the United States but also to the rest of the world, suggesting that the trade war has created new opportunities beyond simple trade diversion.

Importantly, this trade redistribution appears to be more complex than simply moving away from China. Data reveal that countries like Vietnam and Mexico, while increasing their exports to the United States, have simultaneously increased their imports from China, often at a faster rate. Vietnam's share of imports from China increased from 28% to 33% (2017-2022), and Mexico's share from 18% to 20%. At the same time, Chinese foreign direct investment has flowed into these countries' manufacturing sectors. This pattern strongly suggests that China remains deeply integrated into global value chains, likely supplying intermediate goods or components to these "connecting" countries, which in turn assemble and export final products to the United States, effectively bypassing direct tariffs. Therefore, while direct bilateral trade figures suggest a degree of decoupling, the underlying

dependence of the US economy on Chinese inputs may persist through these indirect channels. The simple “reshoring” narrative finds little support in aggregate data, which instead point to a complex “great reshuffling” of global production networks. Accurately tracking these complex shifts remains a challenge for standard trade data methodologies, highlighting the limitations of relying solely on bilateral trade figures to assess decoupling (veryfystock, 2025).

**b .Impact on US Dollar Dominance:**

The trade war has raised questions about the long-term sustainability of the US dollar's dominant role in the international financial system. The dollar's dominance stems from several factors, such as the depth and liquidity of US financial markets and investors' sense of security in US Treasury assets. This dominance gives the United States significant advantages. However, the weaponization of financial and trade restrictions motivates countries, particularly those facing US pressure such as China and Russia, to reduce their reliance on the dollar and seek alternatives for trade invoicing, reserves, and payment systems. Efforts include encouraging the use of national currencies in bilateral trade, developing alternative payment infrastructures (such as China's CIPS system), exploring central bank digital currencies (CBDCs), and increasing their reserves of non-dollar currencies such as gold or other currencies (veryfystock, 2025).

World Trade Organization: US tariffs are illegal. The WTO has legally challenged US tariff measures. In late 2022, a WTO dispute panel ruled that US steel and aluminum tariffs under Section 232 violated WTO rules, rejecting the US claim that they were genuine national security measures. The United States strongly rejected the ruling and refused to lift the metal tariffs. Washington appealed the case to no avail, as the US has already blocked the WTO's Appellate Body, making a final ruling impossible. In effect, the US tariffs remain in place, and the WTO's enforcement mechanism remains paralyzed (Kaplan, 2025).

The recent U.S. tariff measures mark a dramatic change in the global trade environment, risking the undoing of decades of economic integration. By directly focusing on bilateral trade imbalances and moving away from the principle of equal treatment, these actions fundamentally alter the motivations and strategies of multinational companies and exporting nations . The resulting uncertainty—about retaliation, recalculations, and redirection of trade flows complicates decision-making and planning for international businesses (Evenett & Fritz, 2025).

**c. The European Union Responds to the United States :**

Old allies were not content to stand idly by. In April 2025, the European Union agreed to impose retaliatory tariffs targeting more than \$22 billion in U.S. goods. European officials imposed tariffs on a range of U.S. products in response to Trump's sweeping import tariffs. The EU warned that U.S. protectionism was "harming both sides," even as it moved to protect its own industries (Kaplan, 2025) .

**d. Global trade tensions escalated:**

Other partners responded in kind. Canada, which was initially exempted from some U.S. measures under the United States-Mexico-Canada Agreement, imposed retaliatory tariffs on select U.S. goods in early 2025 after the United States targeted Canadian steel and aluminum and threatened other sectors. By April 2025, U.S. exports worldwide were expected to be subject to foreign retaliatory tariffs. Analysts

say that these counter-tariffs, if fully implemented, could shave an additional 0.2% off US GDP (Kaplan, 2025).

The ideas behind these actions challenge the very core of the multilateral trading system. Instead of targeting specific unfair trade practices, the United States views trade deficits as a national security threat. This marks a shift away from rule-based trade governance toward a more results-driven and potentially transactional approach. If this trend continues and spreads to other major economies, it could speed up the breakup of global trade into competing regional blocs shaped more by strategic interests than by economic factors. The coming months will determine whether we witness a reassessment of the WTO, or the beginning of a deeper globalization that will reshape the global economy for decades to come (Evenett & Fritz, 2025).

The United States' trade deficit has remained extremely high for nearly 50 years, dating back to 1976. In 2022, the United States imported goods and services from virtually every country in the world, including Russia, Afghanistan, and even North Korea. The goods imported from North Korea were mostly metals, not more complex finished goods. Although the United States remains a major player in the global market, it has continued to run a net trade deficit for decades.

#### **Conclusion:**

The escalating economic confrontation between US administrations and China's recent actions have raised fresh concerns about the future of trade relations. So far, there's no indication that U.S. tariffs on Chinese goods or export controls will ease anytime soon. Henry Gao, a professor at Singapore Management University, argues that relying on unilateral tariffs hurts the U.S.'s image as a defender of free trade and at the same time, chips away at China's moral authority on the global stage. That said, some lawmakers have introduced new bills to broaden investment restrictions to include more Chinese industries. There are also proposals that would force the federal government to divest from Chinese companies in its investment plans.

Even if the US and China reach an agreement to end their temporary trade war, economic and trade relations between the two countries will remain precarious for years to come. The reason for this is that the current conflict is not just about trade, but about broader structural issues. The U.S. and China are competing fiercely for economic and technological dominance over the long haul. Finding a way to settle this rivalry will require both sides to agree on a compromise. This chapter starts by looking at the U.S. demands in the current trade war and technology battle, then explores possible solutions from the U.S. perspective.

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