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The Impact of Adjustment in US International Trade Tariffs on China

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Abstract: In the past few years, Trump's first presidency passed many trade policies aiming at reducing China's export to the US, which damaged both Chinese and the global economy. As Trump's forthcoming second presidency may cause further twists in international trade relations due to harsh tariff adjustments towards Chinese exports, this article aims to study the impact of trade policies during Trump's first presidency, what may happen next and what countermeasures can be used by related countries. This paper evaluates the trade policies passed during his first presidency and the corresponding impact on both China and US economies. The results show that Trump's policies increased price level in the US and broke the balance of trade between China and the US. With an expectation of stricter tariff adjustments in his second presidency, trade situation would become harsher for export-dependent countries such as China, Mexico and Canada. Therefore, this article suggests that these countries could improve trade partnership with each other, encourage domestic technological growth and increase domestic purchasing power as the countermeasures.

Keywords: international trade, tariff adjustment, trade policies

1. Introduction

The issue of the adjustment of US international trade tariffs has attracted increasing attention from scholars in recent year. As US-China trade stands at the center of this discussion, the impact of US tariff increases on China and the trade frictions between the two counties are topics that scholars cannot overlook. Scholar analyzes the trade protectionism policies implemented by the Trump administration, particularly the high tariffs on Chinese goods, and their effects on Sino-US bilateral trade [1]. Trump's policies during his presidency have had some impacts, that the US-China trade war intensified has led to high tariffs imposed on Chinese goods worth hundreds of billions of dollars [2]. This escalation led to retaliatory tariffs from China, creating a cycle of increasing trade restrictions that strained relations between the two largest economies.

While tariffs were intended to protect American industries, many US businesses faced higher costs for imported goods, which affected profit margins and, in some cases, led to higher prices for consumers. Some industries, particularly agriculture, were hit hard by Chinese tariffs on US exports, affecting farmers and related sectors [3]. Another study examines Trump's trade policy ideology, its implementation measures, and their effects on the US and global economy. It argues that Trump's trade policy could become a turning point in the development of the international trade system [4].

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Unlike previous studies, this research speculates on the potential consequences of Trump's trade policy adjustments as he is going to take office again, based on the trade policies implemented during his previous term and their impacts. This study provides insights into global economic impact, concentrated on the effectiveness of policy adjustments. The findings of this research could provide better understanding on the trade policy interactions in great power relations, offering real-world insights to improve related theories.

2. Trade Policies in Trump's First Presidency

2.1. "America First" and the Trade War

During Trump's first presidency (2017-2021), he implemented trade policies centered around the "America First" doctrine. All the policies, targeted to increased tariffs, renegotiation of trade agreement, and protectionist measures, had significant economic impacts on both the United States and China. Key impact of this adjustment of US trade tariffs led to the US-China trade war. In this event, imposed tariffs on a wide range of Chinese goods worth over $360 billion, with rates as high as 25%. This adjustment meant to be a protection of domestic manufacturing by imposed tariffs to limit imports of steel, aluminum and other goods, which may encourage companies to move manufacturing back to the US. China retaliated with tariffs on US goods, including agricultural and energy products.

2.2. Impact on the US Economy

It has short-term protective effects. Certain domestic industries have more opportunities to make production as fewer companies choose to use fundamental production line in China, therefore, it experienced short-term gains in production and employment due to tariffs. For local consumer, as high tariffs raided, the prices of imported goods would rise; American consumers and businesses would need to spend higher cost for the same goods as in the past. It was leading to a cost push inflation in US. Therefore, the living standards of Americans would be lower. Studies estimates that the average American household paid hundreds of dollars more annually [5].

As technology and industry policies passed, Chinese technology firms had been sanctioned. Some Chinese companies were not allowed to get into US markets, which was promoting the development of US based supply chains. However, some multinational companies might shift production to southeast Asia to avoid tariffs. Moreover, these policies resulted in a slower economic growth. The International Monetary Fund (IMF) noted that trade tensions led to slower global economic growth, which also affected the US economic.

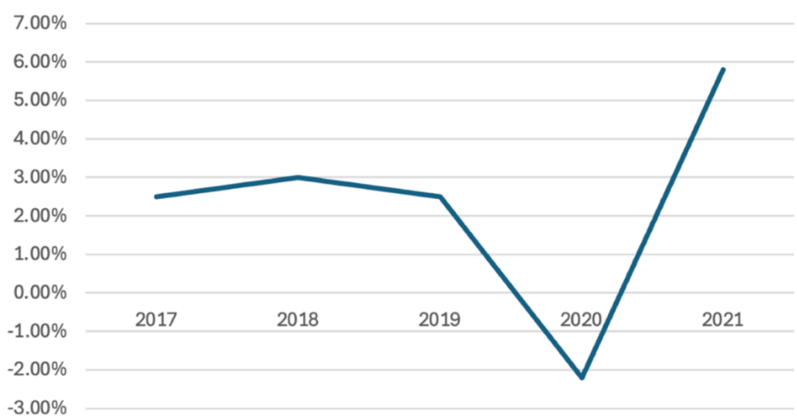

Figure 1: US real GDP growth rate between 2017 and 2021 (Data from: Statista).

During Donald trump's presidency, US experienced varying growth rate in Gross Domestic Product (GDP), as shown in Figure 1 [6]. Nevertheless, in 2019, export and import amount only took 2.5 % of GDP. According to a study, US-China trade experienced the following phases between 2007 and 2022, namely, Steady Growth Phase (2007-2011), Fluctuation Phase (2012-2016) and Trade Friction Phased (2018-2019). In the first phase, China's exports to the US increased from $303.18 billion to $381.19 billion, while US import from China grew from $ 64.58 billion to $106.98 billion. In the second phase, due to global economic slowdown, China's export to the US continued to grow, but imports decreased. Last phase was also during Trump's presidency, when trade tension escalated, leading to a decline in total bilateral trade. There was a significant drop of Chinese exports to US, from $535.51 billion to $449.88 billion [7].

2.3. Impact on the Chinese Economy

These policies led to a reduced exports and slower economic growth. In 2017, China's export to US was $ 429.75 billion, but in 2019, due to the trade war, export declined to $418.52 billion [7]. Nevertheless, in 2020, the export rebounded to $451.81 billion, which was even higher than the first year. Due to trade war, from 2018 to 2020, Chinese GDP growth rate was less than what was expected. Moreover, the proportion of Chinese export to US was 16.4% of its total export. Proportion of Chinese export to US has been gradually decreasing. In 2020, the proportion declined to 14.7% [8]. Export-oriented industries faced challenges, prompting businesses to seek new market in Europe and Southeast Asia. Therefore, it accelerated China's industrial upgrading and transition toward a domestic consumption-driven economy.

The trade war initially caused depreciation in Chinese renminbi (RMB) but remained manageable overall, while capital outflows increased temporarily in the Chinese market. Overall, Trump's trade policies provided short-term benefits to certain domestic industries and voter groups but harmed the broader economy, especially consumers and export sectors. The policies also failed to significantly reduce the trade deficit [9]. The US-China trade war created economic pressures but also drove Chinese industrial transformation and technological self-reliance. It highlighted the need to diversify export markets and boost domestic demand. Around the globe, supply chain experienced disruption, particularly in East Asia. US-China tensions heightened the risk of economic and technological "decoupling," with lasting effects on the global economy.

2.4. After Trump's Presidency

After Trump left his presidency, American economy rebounded strongly with a GDP growth rate of 5.8%, which was the highest since 1984 [6]. The unemployment rate declined significantly, from around 6.7% in 2021 to 3.8% in 2022, which was similar with the level before the COVID-19 pandemic. However, the economic rebound was accompanied by inflationary pressures, which was the highest in nearly 40 years, driven by supply chain disruptions, rising energy prices and surging demand [10]. In fiscal policy, the Biden administration's American Rescue Plan injected $1.9 trillion into the economy, providing direct aid to households and businesses, significantly boosting recovery. The Biden administration retained most of Trump's tariffs on Chinese goods, but it could not stop that. In 2021, trade between the two nations hit a record high of $657 billion, surpassing pre-trade war levels, which was driven by demand for consumer goods and agricultural products.

3. Trump's Next Presidency

During his election, Trump planned to implement several significant trade policies. In addition to the current policy, Trump planned to increase 10% tariff on Chinese export products. He also considered adding 10% baseline tariff on all the imports, leading to Chinese exports to US facing as high as 60%

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tariff. Notably, in this case, Trump suggested a 25% tariff on all imported products from Canada and Mexico until they stop exporting illegal drugs. If these policies were to pass, it could lead to further trade tensions, global supply chain disruption, and increased inflationary pressures. Canada and Mexico have already announced retaliatory measures, and at same time, China has warned against the consequences of trade war.

3.1. Economic Impact

As high tariffs have been added on imported products, the raw materials of production will increase. Companies may force to reconfigure supply chains. In the short term, supply shortage may happen. Therefore, the cost push inflation will continue impacting the price levels of goods. Also, Americans have less chance to import goods from lower prices countries, which means costs of living are going up [11]. The living standards of people will decrease. While Canada, Mexico and China retaliate by increasing tariffs, global trade conflicts are going to be worse. The trade war will be further exacerbated. This action might encourage other nations to adopt similar protectionary policies, undetermined global free trade and market stability. It could also weaken the role of World Trade Organization (WTO), as unilateral tariffs could destabilize agreements.

For China, additional tariffs could weaken Chinese exports competitiveness, intensify the US-China trade dispute, and push China to expand trade relationship with other markets. From the experience, the total trade value will drop down, leading to an unmatched expectations of GDP growth. However, the inflation rate will rise. This policy will raise trade uncertainty, which may cause businesses to reduce their capital investments. Therefore, the economic growth may get into a low-speed situation. Government may increase spending to raise its GDP up again, which could cause an increase in budget deficits. Furthermore, high tariffs may make an adjustment to global supply chains, and the tariffs may increase the inflation rate worldwide. However, higher tariffs and trade disputes could slow down global economic growth, particularly for export-dependent markets. Trump could strengthen technology export restrictions, targeting key area like semiconductors and 5G technology. Also, US might restrict Chinese investment in American high-tech companies or critical industries. They could lead to limited access to advanced technology from China, forcing the country to accelerate its efforts in technological self-reliance and innovation. China will have less opportunity of diversifying the international investment portfolio.

3.2. Policy Recommendation

Chinese economy has relied heavily on exports for decades, but trade wars and the retreat of globalization reveal the risks of this model. Facing this situation, China should strengthen domestic demand to reduce reliance on external market. The government can reduce taxes, increasing social welfare and improve healthcare system to raise disposable income and stimulate demand, and increase subsidies and reduce tax in smaller city for creative companies [12]. Therefore, people could be encouraged by the fiscal policy and firms are encouraged to innovate their own technology which stimulates technology growth. At the same time, it could reduce unemployment rate and regional disparities, and enhance consumption capacity in smaller cities. Developing the service sector is another thing should be considered, which could help China transition to a consumption-driven economy.

About economic structure, China could build a technology ecosystem that is driven by enterprises and guided by market demand, and at the same time, reinforce the collaboration among industries, universities and research institutes to reduce dependence on foreign technology. Moreover, China could promote initiatives like the Regional Comprehensive Economic Partnership (RCEP) and Belt and Road Initiative to deepen trade ties with Association of Southeast Asian Nations (ASEAN), Africa and Latino America [13]. Furthermore, expanding bilateral trade and investment with the European Union and leveraging its commitment to free trade may achieve the expansion of international markets for China. As the global economy transition to greener practices, China can gain a competitive edge by focusing on sustainable industries. China could encourage the domestic firms to use renewable energy sources to reduce reliance on fossil fuels [14]. Lastly, developing networks for electric vehicles and smart grids could be a useful way to support green economic growth. Increase working with international organizations like the United Nations and G20 could promote green development and establish partnership with other nations. Therefore, the Chinese international trade could reduce its dependence on the US.

4. Conclusion

During Trump's first presidency, it has caused many impacts on both economies. Since Trump has won the presidency again, what may happen next turn to be a popular topic for research. In the past 10 years, US has kept tightening the international trade policy which increases tariffs and limitations of technology communication. Particularly during Trump's administration, the tariffs on Chinese imports product are unprecedentedly high, leading to China's retaliatory increase in the tariffs to US products to protect the international trade balance. However, the US-China trade war makes unprecedented impact on both economies. Under this background, this paper discusses how the adjustment of US trade international policy impact on China's economy, as well as the impact on US domestic economy. This study analyses the benefits and drawbacks of the policies, provides angles of improving trade policy, and suggests possible countermeasures for the upcoming new presidency time. This paper evaluates the economic impact during Trump's last presidency, such as the GDP growth in the US, and discusses possible policies that China or other countries can use as countermeasures, such as building a relationship with other nations, supporting a green economic growth, reducing dependency on exporting to the US and increasing independence in technological growth. As result, Trump's policies benefit US economy in the short term. However, in long term, it breaks the original global economic structure. For related countries, they should reduce reliance of export, improve domestic economic environment, and build a better international trade relation with each other.

The limitation of this article lies in the lack of data support, as it relies solely on qualitative analysis. Also, in this article, some of the possible factors have not been considered, such as the COVID-19 pandemic. Further research should consider more observations and data on US-China trade and economic impacts, especially during the Trump's second presidency. More in-depth long-term data analysis would provide more reliable conclusion and effective policy recommendations.

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