

An Investigation into the United States Domestic Factor of the Escalating Trade War

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Abstract. The escalation of the United States-China trade war is not merely a sanction against China, but rather a response to the United States' own domestic economic challenges. Faced with persistent trade deficits, mounting national debt pressures, and an employment crisis fueled by manufacturing hollowing out alongside widening wealth disparities, the United States government seeks to boost manufacturing, curb capital outflows, and strengthen domestic employment through tariff hikes—all to maintain its global financial and economic dominance. In a sense, the trade war has become a tool for the United States to alleviate its internal problems. However, the effectiveness of this approach remains to be seen. The resulting restructuring of global supply chains, inflationary pressures, and heightened tensions between China and the United States have also created new challenges and uncertainties for the United States itself. Behind the Sino-American trade war lies the external manifestation of the transformation dilemma facing the United States domestic development model.

Keywords: trade war, China, trade deficit, United States treasury bonds.

1. Introduction

Today, as China continues to develop and achieve breakthroughs in high-tech fields, such as chips and artificial intelligence, the United States seeks to slow China's growth through trade wars. A more significant reason lies in the fact that China's national scale and economic weight have grown to a point where the United States can no longer afford to ignore it. China's population of approximately 1.4 billion possesses significant economic utility. This massive demographic represents a vast market, enabling numerous Chinese enterprises to achieve substantial production scales by relying on domestic demand [1]. Currently, China's hard power, exemplified by its military capabilities, is gradually catching up to the current United States. Therefore, a key factor behind the tariffs imposed by the United States is to sanction China, restricting its economic growth and the development of its high-end manufacturing sector.

On April 2, 2025, the United States announced the imposition of at least a 10% baseline tariff on all global trading partners, with additional higher rates applied to 60 countries and regions. China, Vietnam, Cambodia, and others became key targets [2]. This demonstrates that the United States tariff war was not solely directed at China; other factors inevitably contributed to its escalation to the current scale. While economic tensions between China and the United States remain high, the tariff

war also imposes significant negative costs on the United States. For instance, it may trigger retaliatory tariffs from other nations, further exacerbating domestic inflation in the United States. Moreover, due to tariff increases, the United States has seen an annual reduction of \$41.3 billion in real income [3]. This demonstrates that even while enduring such substantial negative consequences, the United States government persists in waging a global tariff war, indicating the presence of other underlying factors. The primary objective of this article is to analyze domestic United States issues through the potential benefits America may gain from initiating the tariff war, and how these issues have driven the escalation of the conflict. Currently, considering the United States national context, three major domestic issues prevail: trade deficits, high national debt, and industrial hollowing-out. Therefore, this article will focus on analyzing how these three problems have led to the tariff war and the severity of their impact on the United States.

2. Domestic economic situation in the United States (trade deficit)

The United States-China trade war began in March 2018 when the United States government announced tariffs on imported steel and aluminum products from China, sparking a trade dispute [4]. Subsequently, both sides imposed retaliatory tariffs on each other, leading to the outbreak of the trade war. By 2025, tensions between the two nations had escalated significantly. Each tariff adjustment was primarily initiated by the United States, with China implementing countermeasures to protect its domestic industries. Delving into the underlying logic, the United States, as the initiator, faced a series of domestic financial challenges that served as the primary catalyst for this tariff conflict.

Following Trump's second inauguration in 2025, he immediately imposed tariff measures on a series of countries including Europe, Southeast Asia, China, Japan, and South Korea. This served both as sanctions against neighboring nations and as a primary measure to rescue the United States economy. A key underlying reason was the persistent trade deficit issue within the United States. Compared to China, in 2024, the total value of Chinese exports to the United States reached approximately \$440 billion, while the total value of Chinese imports from the United States was only \$143.5 billion. China alone accounts for a deficit of approximately \$300 billion, making it one of the primary contributors to the United States trade deficit today. Simultaneously, the United States imports substantial goods from Japan, South Korea, Europe, and other nations, resulting in a total trade deficit of \$1.2117 trillion in 2024. However, this trade deficit does not necessarily place the United States at a disadvantage. From the perspectives of goods trade, services trade, and financial investments, the United States holds absolute dominance through its service industries and overseas investment profits [5]. Consequently, the direct negative impact of the trade deficit on the United States is relatively limited. What truly affects the United States is the chain of issues triggered by the trade deficit.

First, persistent trade deficits have led to a significant outflow of United States manufacturing, with the most severe impact on low-to-mid-tier manufacturing sectors. Under early United States economic policies, numerous factories relocated to neighboring countries. This demonstrates America's vulnerability to other nations in strategic resources due to its manufacturing deficit. While the United States possesses cutting-edge manufacturing technologies, it lacks the mid-to-low-end industrial chains necessary for processing raw materials. Take the defense sector: the United States must import substantial quantities of finished steel coils from countries like China for precision machining. Consequently, defense spending consumes a significant portion of the annual budget, driven both by high demand for military equipment and the additional costs incurred from importing raw materials. Rare earths offer another pertinent example: although the United States possesses

natural rare earth resources, it lacks the capacity to process and refine them. This implies that for the United States to process and produce rare earths, it would require rebuilding the industrial chain, substantial capital investment, and significant environmental pollution. Compared to importing from China, domestic production costs far exceed import prices. Moreover, rare earths are strategic resources, meaning the United States faces substantial constraints from China in this area. Consequently, the United States government aims to use the tariff war to compel capital to establish factories domestically rather than diverting large sums of public funds to subsidize its own manufacturing sector.

3. Analysis of the massive United States national debt

Among the ongoing economic challenges facing the United States, two issues have garnered significant attention: the nation's massive national debt and the phenomenon of industrial hollowing out. By July 2025, the United States national debt had reached a record high of \$36.6 trillion and continues to grow. This trend stems from multiple factors, including the economic downturn caused by the recent pandemic and the contraction of the real economy. Additionally, factors like the trade deficit mentioned earlier have contributed to this situation.

From an economic perspective, a trade deficit signifies substantial outflows of United States dollars to trade surplus nations like China and Japan. To repatriate these capital flows, the United States offers a stable investment channel by issuing Treasury bonds to countries holding large dollar reserves. This allows repatriated assets to further bolster the United States economy and social welfare. However, this arrangement often carries trust-related risks, such as financial crises or market volatility. International investors may then question the safety of United States Treasuries, halting purchases or even selling off holdings. This makes it difficult for the United States to continue financing through Treasury bonds, potentially destabilizing its financial system. In early 2020, amid the Coronavirus Disease 2019 (COVID-19), global financial market risks surged rapidly. International financial institutions aggressively sold off United States Treasuries to secure liquidity [6]. Transaction data reveals that Asian nations sold off \$7.1 billion in face value of United States Treasuries in 2021, escalating to nearly \$111.9 billion in 2022 [6]. The loss of Treasury bonds to guide capital back to the United States would trigger a series of problems, such as fiscal crises, inadequate social security, and defense spending cuts. Now, with the scale of Treasury bonds growing ever larger, the United States urgently needs to make changes to maintain the stability of its Treasury bonds, and the tariff war is one of the main measures.

In the background of the United States imposing tariffs on the global market in 2025, gold, as a safe-haven asset, saw its price steadily rise, peaking at \$3,345.09 per ounce. A rise in TPU (Trade Policy Uncertainty) could increase the price of gold, which is typically considered a safe-haven asset during times of elevated uncertainty and market stress [7]. It is evident that amid turbulent times, safe-haven assets often attract the most attention from international investors, with United States Treasury bonds being one such asset. By launching a tariff war to create global panic and uncertainty, the United States draws substantial international capital back into holding United States Treasuries. This, in turn, lowers the yield on these bonds and reduces the United States government's borrowing costs. The United States government must continuously issue new Treasury bonds to pay interest on existing debt and cover the trade deficit resulting from its persistent trade imbalance. This means the cost of issuing new Treasury bonds is significantly reduced. However, using a tariff war to address the debt issue is a highly dangerous and inefficient approach. First, alleviating the debt burden is built upon creating global panic, which is not a healthy economic model. Second, the tariff war leads to overall price inflation and retaliatory measures such as counter-tariffs adopted by

countries like China. From the research of Gabor Pinter and Frank Smets: the April 2025 United States tariff announcements shows short-term inflation expectations spiked on the news, and the authors note the tariff-shock factor was already contributing to rising short-term inflation expectations [8]. Therefore, on the economic front, the negative impacts of a tariff war may even outweigh its positive benefits. Thus, alleviating national debt pressures is merely a secondary benefit achieved through a tariff war, not its primary objective.

4. The phenomenon of domestic industrial hollowing-out in the United States

The hollowing out of United States manufacturing has resulted in millions of job losses, with the added service sector positions often offering lower wages, less stability, and fewer protections. The impact is most pronounced in the Midwest and Southern states, which, unlike the prosperity brought by finance and technology industries in coastal cities, have suffered severe economic blows from the loss of manufacturing. This has led to deep social divisions and widening wealth gaps in American society. To address this hollowing-out, the United States requires manufacturing reshoring to generate local tax revenue and stimulate employment growth. In contrast, China—the world's largest trade surplus nation—possesses the globe's most extensive manufacturing infrastructure. Thus, imposing tariffs on China to compel capital remaining there to return to the United States constitutes one objective of this trade war.

Stolper-Samuelson theory posits that international trade increases the real income of a country's relatively abundant factors of production while decreasing the real income of its relatively scarce factors. This theory equally applies to the United States. America possesses abundant financial capital, high-tech companies, and highly skilled professionals such as engineers and programmers. Conversely, it lacks low-skilled labor, including construction workers and electronics assemblers. Consequently, as international trade expanded, the United States shifted its export focus toward high-end products like chips, financial instruments, and computer software. This inevitably led to neglect of mid-to-low-end manufacturing, forcing the United States to import substantial quantities of goods from these sectors. The influx of high-quality, low-cost products from other nations disrupted the United States market, forcing factories to either close or relocate overseas. Rising exposure increases unemployment, lowers labor force participation, and reduces wages in local labor markets. Manufacturing sheds jobs in response to increased import competition [8]. This has led to a sharp decline in demand for low-skilled workers in the United States, causing their wages to fall and even putting them at risk of layoffs.

At the same time, the outbreak of the tariff war is also closely tied to the social context in the United States since 2007. Adjustment in local labor markets is remarkably slow, with wages and labor-force participation rates remaining depressed and unemployment rates remaining elevated for at least a full decade after the China trade shock commences [8]. Under the impact of trade shocks, the loss of manufacturing jobs inflicted nearly a decade of lasting damage on regions that had long been America's industrial backbone. This shift gradually steered the nation's political winds toward trade protectionism. Consequently, Trump pledged to revitalize the local economies of Rust Belt regions—areas once prioritized for industrial development but now impoverished by industrial transformation—to the voters there. However, as previously noted, the United States lacks a pool of cheap labor. From a capital perspective, re-establishing factories in the United States would inevitably raise product costs. Thus, tariffs serve as an external catalyst to drive local economic recovery.

5. Conclusion

The global tariff war initiated by the United States stems from three long-standing domestic economic issues: massive trade deficits, an enormous national debt, and industrial hollowing-out. First, the trade deficit exposes America's industrial weaknesses, particularly its long-term absence in low-end manufacturing, leaving it vulnerable to strategic resource constraints. Tariffs thus serve as a radical tool to force supply chains back and rebuild its manufacturing base. Second, the \$36.6 trillion national debt is a ticking time bomb. By creating global market panic, the tariff war has reshaped United States Treasury bonds into safe-haven assets, attracting international capital back to the United States. This temporarily lowers the government's new financing costs, buying it breathing room. However, this approach is not only unsustainable, but the resulting inflation and rising interest rates could trigger even more severe consequences. Finally, and most critically, is the social problem caused by industrial hollowing-out. Tariff wars aim to artificially boost the competitiveness of domestic products by raising import prices, thereby fulfilling political promises of “bringing manufacturing back” and “creating jobs.”

In summary, this tariff war represents a remedial measure adopted by the United States in the face of major internal crises. Its logic is to create global economic turmoil through external conflicts, buying time and opportunities to address domestic issues. However, this approach is a double-edged sword. While it may temporarily reduce the trade deficit, it inevitably exacerbates domestic inflation in the long run and provokes trade retaliation from China and Europe. Ultimately, it risks intensifying rather than resolving America's economic predicament. The United States' domestic challenges are fundamentally structural, and tariff strategies alone cannot address their root causes.

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