

The Impact of the Modification of US Trade Remedy System on Chinese Economy

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Abstract. As one of the largest economies in the world, the trade policy of the United States has a profound impact on the global economic pattern. In recent years, the modification of the US trade remedy system has had far-reaching effects on China's export trade, high-tech sector, and job market. Therefore, this paper examines the recently revised trade remedy system in the United States, utilizing a comprehensive approach that includes comparative analysis, case studies, and literature review to assess the impact on China's economy. The focus is on understanding how changes in U.S. policy could affect Chinese trade dynamics, industrial sectors, and overall economic health. The paper argues that while the updated U.S. trade remedy system introduces challenges to China's economic landscape, it does not necessarily hinder China's potential for sustained growth and development. Furthermore, this situation presents an opportunity for China to accelerate its initiatives towards reform, opening-up, and modernization. By adapting to these changes, China can strengthen its economic resilience and further solidify its position in the global arena. This paper posits that through strategic adjustments and embracing innovation, China can navigate the complexities of international trade policies and continue on its path of economic prosperity.

Keywords: US trade remedy system, Chinese economy, global trade, economic integration, trade liberalization.

1. Introduction

With the deepening of global economic integration, trade liberalization has become the trend of The Times. However, in the process of trade liberalization, trade frictions occur from time to time, which brings unstable factors to global trade. In recent years, the United States has updated its trade remedy system to enhance its oversight of international commerce. These updates include refining product investigation rules and anti-evasion measures in 2021, revising the special market conditions rule in 2022 following a court ruling, and planning to introduce stronger enforcement regulations by the U.S. Department of Commerce in 2023 [1]. These adjustments, while primarily impacting the US economy, also exert considerable influence on other nations, particularly China. This paper will deeply explore the impact of the modification of the US trade remedy system on China's economy, and analyze the reasons behind it, the scope of impact and possible countermeasures.

During Trump's term in office, the trade policy has been greatly adjusted, and the economic measures of "global austerity, America first" have been implemented, among which the obvious change is the revision of the trade remedy system [2]. Generally speaking, the government has adopted policy measures such as tax cuts and interest rate hikes to attract the manufacturing industry back to the country. Abroad, it uses punitive tariffs and technical barriers to protect domestic industries. However, this kind of trade protectionism, which contains the characteristics of anti-globalization and unilateralism, and tries to promote the innovation-led manufacturing industry chain model, is deeply rooted in the United States. As the Swiss economic historian Paul Bairoch put it, the United States is "the birthplace and bastion of modern trade protectionism [3]."

As the world's second largest economy, China has a close and complicated economic and trade relationship with the United States. Therefore, the modification of the US trade remedy system will undoubtedly have a profound impact on China's economy. This influence is not only reflected in the increase or decrease of trade volume, the adjustment of export market, etc., but also involves the deeper adjustment of economic structure, industrial upgrading and the change of international

competition strategy. In face of this complex and changeable international trade environment, it is of great practical significance to deeply understand the background, reasons and impact of the modification of the US trade remedy system on China's economy, so as to formulate effective coping strategies and maintain the stable growth of China's economy. At the same time, it also provides policy makers, entrepreneurs and scholars with a new perspective and thinking direction to analyze the changes in international economic and trade relations.

This paper unfolds in a structured manner, initially outlining the historical context and recent amendments to the US trade remedy system, followed by a detailed examination of their impacts on China's economy, including trade, technology, and employment sectors. Subsequently, it explores China's response through trade remedy measures and institutional changes, culminating in an analysis of the broader implications for China's economic future and concluding with strategic recommendations for navigating the challenges posed by these international trade dynamics.

2. An Overview of the US Trade Remedy System

2.1. Traditional US Trade Remedy System

The evolution of the US trade remedy system is marked by three significant historical phases, each shaping the framework of modern trade policies. Initially, the system's foundation was laid in the 19th century amidst tariff disputes between Northern industrialists, spearheaded by Alexander Hamilton, and Southern planters led by Thomas Jefferson. The Tariff Act of 1789, which capped the average tariff rate at 10%, and Hamilton's 1791 Infant Industry Theory, advocating for a departure from free trade theory towards protectionism, signaled the inception of US trade protectionism policies. This approach was further entrenched by the Civil War through the adoption of Henry Charles Carey's "American system" of trade remedies.

In the aftermath of World War II, the US government adopted the trade liberalization strategy based on General Agreement on Tariffs and Trade (GATT). This period was characterized by a reduction in tariffs and the introduction of non-tariff barriers, alongside unilateral trade sanctions such as those outlined in Section 301 of the Trade Act of 1974. These measures were aimed at promoting the growth of the US high-tech industries and optimizing industrial structures, despite the tariffs not being completely eliminated [4].

The contemporary phase involves adhering to the World Trade Organization (WTO) framework, which represents a nuanced approach to balancing national interests with the broader impacts on the US economy and its industrial chain. This "double-edged sword" highlights the complexities of integrating global trade norms with national economic policies, underscoring the ongoing evolution of the US trade remedy system in response to both domestic and international pressures.

2.2. The Characteristics of the Revised American Trade Remedy System

The current U.S. trade remedy system mainly refers to the WTO and some legal provisions of the Trade Expansion Act of 1962, the Customs Act of 1930, and the Trade Act of 1974. Since 2021, the US government has made two revisions to its trade remedy system, and the US Department of Commerce submitted draft administrative legislation and publicly accepted public comments from May 9, 2023 to July 10, 2023, in order to integrate intellectual property rights, labor rights, environmental protection, property rights and personal rights into the international trade remedy system [5]. Key procedural enhancements have been introduced to streamline investigations and enforcement. The U.S. can now preemptively investigate goods before they are imported, mitigating the risks of antidumping (AD) and countervailing duties (CVD) [6]. Early stages of circumvention and scope surveys have specific timeframes for the submission of suggestions and replies, with the process beginning a day after the party's response rather than 30 days post-application. Furthermore, the timeline for commencing an investigation has been extended to 60 days, with an initial determination period stretched to 240 days. Parties involved in AD or CVD proceedings are also

required to provide evidence of truthfulness and submit a notice of subsequent authorization within 30 days following a ruling, enhancing the system's integrity and responsiveness.

Additionally, the US Department of Commerce added "countervailing subsidies", and the quota values of other countries will not be used as a measure for their own country. In the anti-dumping proceedings of the US Department of Commerce, if sufficient evidence can be provided that the government of the NME failed to perform its duties, then the country may be considered to have a case of value distortion. This could lead to a decision by the US Department of Commerce to refuse to accept data from these countries as an alternative value for the resource, thus affecting the normal valuation of the resource. More recently, the Commerce Department has begun to implement this strategy in anti-dumping cases against China. In addition, this strategy will also be included in the forthcoming proposed regulations. For example, in a recent anti-dumping case on activated carbon from China, the US Department of Commerce decided not to use the cost of labor produced in Malaysia as an alternative value to assess the normal value of activated carbon due to reports of widespread forced labor in Malaysia's electrical and electronics industry [7].

Furthermore, with reference to the Eliminating Global Market Distortions to Protect American Jobs Act, the U.S. business government plans to repeal its current regulatory policy on cross-border subsidies (19 CFR 351.527). In the new proposed rules, the US government can have the power to implement corresponding anti-dumping measures in anti-dumping for projects such as the China-proposed "Belt and Road" initiative that involve transnational subsidies. In addition, with reference to *Nesteel v. United States*, 28 F.4th 1226 (Fed.Cir.2022), the U.S. Department of Commerce proposes a new rule to determine that particular market conditions distort prices or costs in exporting countries. In general, they choose the special market conditions calculation method, deviate from the anti-dumping calculation method, and tend to increase the anti-dumping duty rate [8].

2.3. Reason for Modification

The motivation behind the United States' revision of its trade remedy system, as indicated by several scholars, extends beyond the mere adjustment of policies. It represents a multifaceted strategy aimed at bolstering economic development through various channels, including the launch of innovative products and services, and safeguarding commercial interests by ensuring the equitable enforcement of trade policies. These amendments are part of a broader effort to foster economic growth and maintain competitiveness in the global market.

In addition, these revisions are designed to enhance the United States' strategic partnerships and regional cooperation, particularly with countries in Asia. Such alliances are instrumental in advancing negotiations and finalizing agreements like the Transatlantic Trade and Investment Partnership (TTIP) [9]. By strengthening these relationships, the U.S. aims to establish a more robust framework for international trade that supports its economic objectives while allowing for the application of trade protectionism when necessary. This approach underscores the U.S.'s commitment to defending its commercial interests, even as it navigates the complexities of global trade norms and practices. The revisions reflect a deliberate attempt to balance the principles of free trade and protectionism, ensuring that the U.S. can protect its domestic industries and workers in a rapidly changing international economic landscape.

3. China's Trade Remedy System and Institutional Changes

3.1. China's Trade Remedy System

China's trade remedy system, developed in accordance with the provisions of the WTO agreements, aims to protect national trade interests and safeguard domestic industries from unfair practices. Initiated in 1994, this comprehensive framework includes measures against dumping, subsidies, and import surges that threaten local industries. Specifically, the system allows for anti-dumping investigations into products sold below their normal value within China, potentially leading to duties that protect domestic industries [10]. It also enables countervailing probes into products that benefit

from foreign government subsidies, distorting the Chinese market and justifying remedial duties to level the playing field. Furthermore, China can implement safeguard measures to curb imports that significantly harm domestic industry, ensuring its stability and growth.

In addition, China has mechanisms in place for intellectual property protection and anti-monopoly enforcement. The State Intellectual Property Office, along with customs and other regulatory bodies, handles cases of intellectual property infringement, including issues related to trademarks, patents, and copyrights, to preserve the rights of intellectual property holders and maintain market order. The State Administration for Market Regulation conducts anti-monopoly investigations, including the examination of mergers and acquisitions that affect international trade, to prevent market dominance and ensure a competitive market environment. Together, these policies and practices reflect China's commitment to upholding both national interests and international trade norms, demonstrating a balanced approach to engaging in the global trade system while protecting its domestic market.

3.2. Changes in China's Trade Remedy System

China has strengthened the construction of laws and regulations related to trade remedy, including the revision and improvement of the Anti-dumping Regulations and the Countervailing Regulations. These revisions have solidified the legal basis for China's approach to trade remedies, ensuring robust protection for its domestic industries against unfair international practices.

In its commitment to shaping a fairer global trade environment, China plays an active role in the creation and negotiation of international economic and trade regulations. When the WTO is facing a crisis and the United States, Europe and Japan put forward reform plans, China has also actively expressed its own reform views. This is mainly reflected in the Position Paper on the Reform of the World Trade Organization issued by the Ministry of Commerce of China in November 2018 [11]. The document underscores China's dedication to reinforcing the WTO's foundational principles of non-discrimination and openness, affirming the importance of a multilateral trading system. It articulates China's stance on the necessity of ensuring that the benefits of global trade and WTO membership extend equitably to developing nations. By advocating for these principles, China signals its intent to play a constructive role in the evolution of the WTO, aiming to contribute to a trading environment that is both fair and adaptive to the changing dynamics of global economics.

China firmly advocates for the adherence to the WTO's consensus decision-making mechanism, illustrating its commitment to cooperative and inclusive international trade relations. Concurrently, China has proposed five strategic initiatives aimed at reinforcing the WTO's effectiveness and responsiveness to contemporary challenges. These initiatives include securing the multilateral trading system's primary role in global trade governance, emphasizing the urgent resolution of critical issues jeopardizing the WTO's functionality, and addressing equity concerns to ensure the organization adapts to current global needs. Furthermore, China emphasizes the importance of providing special and differential treatment to developing members, recognizing the diverse economic landscapes and developmental stages of WTO participants. This approach underscores the need to respect and accommodate the varied economic models and strategies of all member countries.

Through these proposals, China demonstrates a deep and constructive engagement with the process of WTO reform, signaling its readiness to contribute to a fairer, more dynamic, and effective global trade system. Moreover, China is enhancing its national strategy by significantly boosting investment in innovation. This strategy is aimed at strengthening China's overall economic prowess and competitiveness on the international stage, indicating a holistic approach to participating in the global economy that encompasses both internal development and active involvement in shaping international trade norms. This dual focus reflects China's vision of a balanced growth trajectory, aligned with its broader objectives of contributing positively to the evolution of global trade practices while securing its economic interests and stature.

4. Analysis of the Impact of the Modification of the US Trade Remedy System on China's Economy

4.1. The Impact on China's Export Trade

The modification of the US trade remedy system presents both opportunities and challenges for China's export sector. As per recent trade remedy investigations conducted by the US government, the primary focus is on key industries in China such as solar panels, solar photovoltaic panels, and heavy metal products. These measures have had a significant impact on Chinese export enterprises.

One of the immediate effects has been a notable decline in the export volume of Chinese enterprises due to punitive tariffs and anti-dumping measures imposed by the US. This has led to increased costs for Chinese companies and subsequently higher export prices. Consequently, there has been a sharp decrease in demand for Chinese products within the US market, resulting in a considerable reduction in their proportion of exports.

In response to these challenges, Chinese exporters have been compelled to seek new markets. The US's designation of China as a country of special concern has catalyzed the shift of Chinese export focus towards alternative regions such as Central and South Asia, Africa, and South America. Despite these markets being smaller or less developed, they represent valuable new opportunities for growth and expansion for Chinese firms.

Moreover, stricter quality requirements have been introduced for Chinese exporters through these trade remedy measures. The United States has strengthened its inspection procedures and technical standards concerning Chinese products. This compels domestic companies to enhance their technological capabilities and improve product quality so as to meet evolving market demands.

Furthermore, competition among Chinese enterprises has intensified due to these trade remedy measures. Under pressure from US tariffs and other remedial actions taken against them, local businesses are engaged in fierce competition with one another. To maintain competitiveness within the domestic market amidst this challenging, numerous companies are compelled to reduce their product prices, thereby augmenting the overall industry's competitive pressure.

4.2. The Impact on China's High-tech Sector

The implementation of technical trade barriers by the United States has had a diverse impact on China's high-tech sector, manifesting both challenges and opportunities. These barriers have notably curtailed the entry of Chinese high-tech products into the US market, thereby hampering the development of China's burgeoning high-tech industry. Specific trade standards and restrictions, notably hinted at by US Secretary of Commerce Gina Raimondo during her visit to the Philippines, have been aimed at curbing China's technological and military advancements by limiting access to crucial semiconductor technology and production equipment [12].

China has vocally opposed these measures, arguing that the semiconductor export restrictions undermine the foundational principles of international trade and disrupt the global production and supply chains. Since 2018, there have been limitations placed on chip technology provision to China from the United States; this includes prohibiting EDA software giants from supplying chip technology to Huawei as well as restricting chip technology supply from companies like Cheung Kong Computing. Furthermore, US companies such as Intel and Nvidia are prohibited from selling high-end chips and related equipment to China [13].

In response to these pressures, Chinese firms and the government have ramped up their investment and support for the semiconductor industry, striving to enhance the independence of their technological supply chains. Notable advancements and breakthroughs in semiconductor research and development highlight China's commitment to strengthening its technological capabilities and innovation. These efforts not only bolster China's position in the global high-tech competition but also underscore its resilience against external trade pressures.

China's advancements in the high-tech sector, despite facing stringent trade barriers, reflect a strategic pivot towards self-reliance in critical technologies. This approach not only mitigates the

immediate impacts of trade restrictions but also contributes to the long-term competitiveness and sustainability of China's high-tech industry in the face of evolving international trade dynamics.

4.3. The Impact on China's Job Market

In recent years, China's economy has seen mixed growth and traditional manufacturing industries are facing huge challenges. At the same time, emerging industries are developing rapidly in China. With the gradual transformation of traditional industries, new urbanization and the booming service industry, as long as the market can give full play to its decisive role in resource allocation and is supported by the government's rational and wise institutional construction, the employment problem will not become particularly severe on the premise of maintaining a certain economic growth rate.

Despite the looming shadow of trade tensions with the United States, the impact on China's job market, in the short term, is likely to be moderated by the country's robust internal mechanisms for economic growth and adaptation. The focus on maintaining a stable economic growth rate, alongside proactive measures to support emerging industries and retrain the workforce for new economic realities, serves as a buffer against immediate employment shocks. However, for regions and cities more dependent on industries vulnerable to trade disputes, the formulation and implementation of targeted contingency plans are essential. These plans are designed to address potential disruptions, ensuring that the transitions within China's economy do not translate into widespread job losses but instead open avenues for new employment opportunities in line with the shifting contours of global trade and economic development.

5. Conclusion

As this paper unfolds, it becomes evident that the modifications to the US trade remedy system and the evolving dynamics of international trade relations present a complex tapestry of challenges and opportunities for China. The impact on China's export sector, high-tech industries, and job market underscores the intricate interplay between global trade policies and national economic strategies. Despite the hurdles posed by trade frictions and technical barriers, China's adaptive responses—ranging from diversifying its export markets to bolstering its high-tech sector and reimagining its workforce development—reflect a strategic resilience and forward-looking vision.

China should develop a comprehensive approach to address the trade protectionism and "trade war" initiated by the United States. Firstly, it is crucial to seek consensus through dialogue and compromise in order to avoid the negative consequences of direct retaliatory measures. Secondly, China should utilize the mechanisms provided by WTO to file complaints against improper actions taken by the US, thereby safeguarding its own rights and interests as well as upholding the credibility of the WTO. Lastly, while preparing countermeasures, China must firmly respond to sensitive US products. This comprehensive strategy aims at striking a balance between engaging in dialogue and taking necessary counteractions, effectively protecting national interests and maintaining international trade order.

In response to the dual challenges of economic transformation and trade barriers, China is poised to accelerate its industrial upgrading and innovation through supply-side reforms, steering excess capacity towards sectors with higher value-addition. This strategic pivot is crucial for circumventing the limitations imposed by technology bans and trade protectionism, particularly those enacted by the US. Enhancing China's innovation landscape, acquiring core technologies, and safeguarding intellectual property rights are imperative steps towards bolstering the nation's competitive edge and ensuring sustainable economic progress. Initiatives like the "Belt and Road" and the establishment of pilot free trade zones play a pivotal role in this endeavor, offering avenues to expand export markets and foster international cooperation. By channeling goods through these routes and optimizing local production capabilities, China aims to deepen economic exchanges and fortify its position in the global market. These zones, exemplifying institutional innovation, have already shown success in

various regions, contributing significantly to China's strategic objectives of overcoming trade restrictions and promoting inclusive growth amidst the complexities of global trade dynamics.

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