# The Impact of Trade Wars and Protectionism on the Global Economy: A Sino-US Perspective

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**Abstract.** The Sino-US trade war, sparked by deep-rooted economic tensions, emerged from the United States' concerns over its significant trade deficit with China and accusations of unfair practices, including intellectual property theft and forced technology transfers. Under the Trump administration, protectionist policies intensified, leading to a series of tariffs and countermeasures, impacting key industries such as agriculture, electronics, and automobiles. Although negotiations led to partial agreements, including the Phase One deal in 2020, many issues remained unresolved, and the Biden administration has maintained certain tariffs, keeping trade tensions simmering. This report delves into the far-reaching impacts of the Sino-U.S. trade conflict and the rise of protectionism on the global economy. Protectionist measures like tariffs, quotas, and subsidies disrupt international trade, raise production costs, and contribute to inflationary pressures. This not only weakens global supply chains but also reduces consumer choice, raises unemployment, and stifles economic growth, particularly in developing nations heavily reliant on exports. The trade war has also hindered investment flows and technological cooperation, especially in emerging sectors like semiconductors and artificial intelligence. In conclusion, the report advocates for strategies such as strengthening regional cooperation, diversifying supply chains, and fostering technological innovation to counter the negative effects of protectionism and promote long-term global economic resilience.

**Keywords:** Sino-US trade war; protectionism; global economy; tariffs; supply chain disruption.

## 1. Introduction

The traditional trade theory believes that trade occurs because most countries could benefit from trade based on comparative advantage. However, as the global business environment becomes more complex, the assumption of mutual benefits might not be fulfilled. The research done by Samuelson proved that when the comparative advantage changes, trade frictions would occur [1, 2]. The Sino-US happened when the interests of both sides conflict, the US has been facing a huge trade deficit in the bilateral trade with China. However, some scholars believe the internal problem in the US is the root of the trade war [3]. Liu pointed out that the trade deficit and overproduction were just an excuse for the US to start the trade war while the true reason behind it was to curb the technology development of China [3]. Protectionism refers to tariff and non-tariff barriers imposed on other countries to restrict their production and promote the development of domestic businesses.

The Sino-US trade war broke out when Trump imposed trade protectionism methods against China's exports. He claimed that China used unfair measures in trading with the US, including stealing intellectual properties and forcing technological transfer, to create and maintain the huge trade deficit between the two countries in the view of the US [4]. The Chinese government fought back positively by increasing tariffs on American imports.

After that, the US and China kept on increasing the tariff rates imposed on each other, especially in the car, and agriculture industry, as revenge for the other party's behavior. Even though they have tried to negotiate to reach a long-term consensus, they all failed. The trade war started to become less tense after Biden became the president of the US. China and the US reached a relatively peaceful relationship in January 2020. However, some tariffs made during the Trump period haven't been solved yet. The recent shooting issue and the survival of Trump might have some effect on the policy trends in America. Nowadays, the the Sino-US frictions are focused on hi-tech industries like semiconductors, and artificial intelligence. After the outbreak of the supply chain during the COVID-19 outbreak, many developed countries decided to bring manufacturing outsourcing back to the home country to prevent the sudden bad influence on the downstream of the supply chain and reduce the high unemployment rate in domestic.

This report aimed to explore the influence of the Sino-US trade war and trade protectionism on the global economy. In the first part, the general influence of trade protectionism on the global economy will be analyzed with aspects of the influence on international trade and the stability of the global economy. In the second part, the detailed influence of the Sino-U.S. trade war on the global economy will be explained, including the effects on the supply chain, global economic growth and global investment [4].

## 2. The Influence of the Trade Protectionism on the Global Economy

### 2.1. The Restrictions on International Trade under the Protectionism

Protectionism manifests in various forms of trade restrictions in international trade, including tariffs, quotas, subsidies, and other non-tariff barriers. These measures are primarily imposed to protect domestic industries from foreign competition, and they often target imported goods, limiting their access to the local market. In this context, tariffs and quotas are the most common restrictive measures placed on foreign goods by the home country.

Tariffs are a widely used tool of protectionism and can take the form of specific, ad valorem, or compound taxes. Specific tariffs are applied based on the quantity of goods imported, such as a fixed amount per ton or unit. Ad valorem tariffs are calculated as a percentage of the value of the imported goods, while compound tariffs combine both methods, adding a fixed amount along with a percentage of the value. The imposition of tariffs raises the price of imported goods, making them less competitive in the domestic market. This forces consumers to opt for more expensive local alternatives, while foreign producers face limited market access. Such measures can strain international trade relations, as they often lead to retaliatory actions from other countries. Quotas, another protectionist tool, limit the amount of specific goods that can be imported, helping domestic producers secure a larger market share. Unlike tariffs, quotas restrict availability rather than increasing prices, but they can also result in shortages or higher prices if local production fails to meet demand. Subsidies, on the other hand, are a more indirect form of protectionism. Governments provide financial support to domestic industries, helping them compete with foreign rivals. These subsidies can be direct, like cash grants, or implicit, such as regulatory advantages. Although less confrontational than tariffs or quotas, subsidies can distort competition by giving local companies an unfair edge, leading to market imbalances. While they may not immediately trigger retaliation, subsidies are often criticized for undermining the principles of free trade and harming global competition.

Implicit trade barriers have grown increasingly popular in modern trade policy. These barriers, which include government regulations, industry standards, and subsidies, allow countries to protect their domestic industries without openly defying international trade agreements or risking retaliatory tariffs. Implicit measures are favored because they offer a more covert way to achieve protectionist goals. For example, strict environmental or safety standards can serve as hidden barriers to foreign competition by making it difficult or costly for foreign firms to meet these requirements.

A prominent example of implicit protectionism can be found in the United States' CHIPS Act of 2022. This legislation provides $52 billion in subsidies to support the domestic semiconductor industry. By offering substantial financial assistance to local firms, the U.S. government aims to strengthen its position in the global semiconductor market. The subsidization of the semiconductor industry grants U.S. companies a competitive advantage over foreign firms, particularly in terms of research and development. In the short term, the government may face welfare losses due to the large subsidy outlays, but the long-term expectation is that increased innovation and higher industry standards will solidify the U.S.'s leadership in this critical sector.

Although subsidies like those provided under the CHIPS Act can foster innovation and growth, the broader implications of such implicit protectionist measures are often more complex. In practice, many implicit barriers tend to restrict international trade. For instance, stringent data privacy and cybersecurity regulations in the U.S. have limited the ability of foreign technology firms to compete in the American market. Similarly, the Buy American Act, which prioritizes U.S.-made goods in government procurement, has reduced the demand for foreign goods and services. These measures, though seemingly focused on national interests, can disrupt global trade dynamics by reducing the flow of imports and altering competitive balances between domestic and foreign firms.

The U.S.-China trade war provides a concrete backdrop for analyzing the effects of protectionist measures. Both countries have employed a variety of tariffs, quotas, and subsidies to protect their domestic industries while targeting the other's imports. The result has been a significant disruption of global supply chains and increased tensions in international trade relations. While such measures aim to protect domestic economies, their long-term consequences often include higher costs for consumers, strained diplomatic ties, and increased economic uncertainty.

### 2.2. The Negative Influence of Protectionism on the Domestically Stable Economy

Despite that most protective policies are made to protect domestic industries, they often generate bad influences on the stability of the global economy. To be more specific, these negative influences include breaks in the supply chain, welfare losses of consumers, higher inflation levels in the home country, retaliation, a decrease in the efficiency of the global economy, and damage to developing countries [5].

The protectionism could increase the price of imported raw materials, which could further transfer to the production department, therefore increasing their costs. Some of the manufacturers have to seek alternatives, which requires a long period and might bring about huge losses. The Sino-US trade war has broken the supply chain of many industries. When this happens, firms might increase the price level of their products, causing high inflation pressure on consumers. Besides, when the government chooses to protect domestic businesses, their competition from abroad will be less. They could maintain the price level relatively high without worrying about losing market share. The trade war between China and the US has let the consumers in the US bear 100% of the tariff with no burden undertaken by producers [6]. This is especially obvious in industries like automatic production, which heavily rely on imported materials and contain high technological inputs. Protectionism also damages the consumer's welfare by reducing the variety of goods.

Besides, protectionism could also cause retaliation behaviors of the other side and might upgrade to a trade war in the vicious cycle of escalating restrictions. The international trade could become harder than before and curb the economic growth of both sides. If the protectionism occurs not only in two countries solely, but in many countries and areas all around the world, the global economy growth rate might become slower than before, because the principle of the comparative advantage has been broken. This means that countries might no longer gain benefits from specialized production and trade, instead, they would force domestic firms to produce what is relatively cheaper abroad.

Another important consideration is its bad influence on developing countries. Most of the developing countries heavily relied on exports based on comparative advantage to support their economic growth. When protectionism becomes common, they might be damaged first because their exports would become less due to declined demands [7]. Lower exports could make the economy grow slower. The decline in demand could also make firms reduce the quantity of employees they hire, causing high levels of unemployment and poverty.

## 3. The Impact on Global Economic Growth

### 3.1. Impact on the Global Supply Chains

The U.S.-China trade war has not only disrupted the stability of global supply chains but has also had profound implications for global economic growth. First, one of the direct consequences of the trade war is the reduction in global trade volume, which weakens economic cooperation and complementarity between countries [8]. Given the high degree of trade dependence in the globalization process, the deterioration of trade relations between the U.S. and China affects not only the growth rates of these two economies but also poses significant challenges to third-party countries that rely on trade with them. According to economists, the contraction in global trade has directly slowed the pace of global economic growth, with particularly pronounced effects in both developed and developing economies.

Second, the trade war has led to an increase in tariff barriers and the proliferation of non-tariff barriers. These barriers have raised the cost of trade not only between the U.S. and China but also for global enterprises, thereby inhibiting cross-border investments and expansions [9]. Many multinational corporations have had to reevaluate their globalization strategies, relocating parts of their production lines from global locations back to their home countries. This trend toward "de-globalization," especially in sectors like technology, manufacturing, and agriculture, has heightened uncertainty in the global economy. The rise in tariffs has also led to increased prices for goods, reduced consumer demand, and not only hurt corporate profits but also weakened overall economic growth momentum.

Furthermore, the trade war may lead to a shift in growth models. Many countries have started to realize that over-reliance on foreign trade exposes their economies to significant risks, prompting a gradual shift toward domestically-driven economic development models. While this transition sounds much like reducing growth in the short run, this negative effect may boost economic autonomy and resilience to risk it in the long run [10].

### 3.2. The Impact on Global Investment

From direct and indirect perspectives, the effect of the U.S.-China trade war on global investment has been felt. First, it affects straightaway multinational corporations' changing investment intentions and directions. Many multinational companies halted or cut back investment projects in the U.S. and China where multilateral tariffs and infinitely complex trade restrictions have caused it to be too risky [11]. As an example, the effects of a trade war have prompted original China-based U.S. firms to contemplate shifting part of their production base to lower-cost regions like Southeast Asia or South Asia. Meanwhile, Chinese companies have become more cautious about investing in the U.S., worried about more policy uncertainty. By this reallocation of international investment, the risk is mitigated, but the cost of capital flows and investment efficiency all decline.

Uncertainty in the global investment environment has indirectly impacted investment decisions. The unpredictability of the U.S.-China trade war has caused many investors to fear that tensions between the two nations will worsen, potentially slowing the global economy. This uncertainty has led investors to become more cautious about making long-term investments, particularly in high-risk sectors like technological innovation, where a lack of capital has delayed significant breakthroughs. Both directly and indirectly, the U.S.-China trade war has affected global investment patterns.

Many multinational corporations have altered their investment strategies due to the complex trade restrictions and tariffs, viewing the U.S. and China as increasingly risky markets. For instance, some U.S.-based companies that originally operated in China are considering shifting part of their production to lower-cost regions like Southeast Asia or South Asia. Similarly, Chinese companies have grown more cautious about investing in the U.S. due to fears of further policy uncertainties. While this reallocation of international investment helps mitigate risk, it also increases the cost of capital flow and reduces investment efficiency.

Next, uncertainty in the global investment environment provides an indirect impact. With the unpredictability of the U.S.-China trade war, many investors are fearful that the two countries' tensions will grow worse and the global economy will slow down. The uncertainty imposed has led investors to be more conservative in taking long-term investment decisions leading to a slowing of capital flow, especially in high-risk sectors such as technological innovation, where lack of investment has delayed the technological breakthrough [12]. At the same time, there is a tendency for geographical regionalization in global investment. To face the global economic uncertainty, many countries have started to work hand in hand on regional economic cooperation and investment, with the EU, ASEAN, etc having drafted closer investment agreements with one another. While this regional investment tendency might spur local economic activity within the regions, on a global front, it might hinder globalization and consequently that of capital and technology flow between countries.

Last, the trade war most probably has the potential to have a reverberating impact on the global foreign exchange markets. Since the U.S. is in economic confrontation with China, their currencies are prone to volatility. To avoid exchange rate risks, global investors may lessen their direct investments in both countries and put their funds in other parts of the world which are more stable foreign exchange markets [13]. If that scenario were to continue, it could add to pressure on U.S. and Chinese capital markets in the long term, a development that could further shake global investor confidence in these nations' economic outlook.

## 4. Conclusion

The U.S.-China trade war has significantly disrupted global supply chains, economic growth, and investment patterns. Companies have been forced to restructure supply chains, leading to increased operational costs and heightened uncertainty. This contraction of international trade has dampened economic growth, reducing consumer demand and slowing global economic expansion. The global investment climate has become more complex, with heightened uncertainty lowering investor confidence and hampering cross-border investment activities.

Given these negative impacts, it is essential for governments and businesses worldwide to adopt proactive strategies. First, countries should promote multilateral cooperation and regional collaboration to reduce reliance on a single market, which enhances economic resilience and reduces trade risks. Businesses, on the other hand, should diversify their supply chains, seeking alternative suppliers and markets to build flexibility and risk resilience. Furthermore, governments should increase support for high-tech industries, encouraging innovation and independent research to stay competitive. Finally, global efforts should focus on maintaining free trade through negotiations and consultations to prevent further spread of protectionism. These collective measures can mitigate the ongoing and future effects of the U.S.-China trade war, particularly in high-tech sectors where competition will intensify.

It will take more time for the US-China trade war to dissipate. As economic confrontation between the two intensifies, the challenges facing the global economy will become increasingly complex. Future trade policies may focus more on high-tech fields, including semiconductors, artificial intelligence, and 5G technology, which will have a profound impact on global technological cooperation and innovation. Simultaneously, the reconstruction of global supply chains and the realignment of investment flows will play a significant role in shaping the global economic landscape in the coming years. Countries should pay more attention to the independence and sustainability of their economies in the globalization process while actively participating in global cooperation to address future challenges and uncertainties.

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