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The Impact of the U.S.-China Trade War: A Comprehensive Analysis and Outlook

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Abstract: This paper analyzes the evolution, causes, and global economic impacts of the U.S.–China trade war since 2018, with particular focus on the transition to "Trade War 2.0" after 2025. Drawing on tariff theory, global value chain (GVC) theory, and strategic trade theory, it examines how escalating tariffs, supply chain disruptions, and technological competition reshape international trade dynamics. The study finds that the trade war has not effectively reduced the U.S. trade deficit but instead led to trade diversion and higher costs, undermining global efficiency. It has also accelerated supply chain restructuring and intensified competition in high-tech industries. The impacts on economic growth, industrial structure, and investment in both countries are uneven, with significant spillover effects on developing economies. Furthermore, the trade war has weakened multilateral institutions and promoted regional economic integration. The paper concludes that future U.S.–China economic relations will likely involve a combination of strategic competition, partial cooperation, and ongoing uncertainty.

Keywords: U.S.-China Trade War; Trade Protectionism; Global Governance.

1. Introduction

The U.S.-China trade war, which has unfolded in multiple phases since 2018, represents one of the most significant disruptions to the global economic order in recent history. This trade conflict, marked by escalating tariffs, trade restrictions, and technological rivalries, has far-reaching implications for not only the two largest economies in the world but also the global trade and economic landscape. The initial skirmishes under the Trump administration in 2018 rapidly evolved into a full-blown trade war, with both countries imposing substantial tariffs on a wide range of goods. The Biden administration, while maintaining a stance of strategic competition with China, continued certain trade restrictive measures, further complicating the bilateral trade relationship. As the trade war entered its second phase in 2025, with more aggressive policies from the U.S., the global economic community watched with bated breath, anticipating the next moves and their potential consequences.

The roots of the U.S.-China trade war are complex and multi-faceted. On one hand, the large and persistent U.S. trade deficit with China has been a longstanding source of contention. The U.S. has argued that China's trade practices, including alleged unfair subsidies, intellectual property theft, and barriers to market access, have contributed to this imbalance. For instance, the U.S. has claimed that China's support for state-owned enterprises in industries such as steel and aluminum has led to overcapacity and unfair competition in the global market. On the other hand, the rise of China as a technological powerhouse has also raised concerns in the U.S. The development of China's high-tech industries, such as 5G, artificial intelligence, and semiconductors, has challenged the U.S.'s technological dominance, leading to measures aimed at curbing China's technological progress, such as export controls and restrictions on investment.

The significance of studying the U.S.-China trade war cannot be overstated. This trade conflict has disrupted global supply chains, affected the profitability of multinational corporations, and influenced the economic growth prospects of countries around the world. It has also raised fundamental questions about the future of global economic governance, the role of multilateral institutions like WTO, and the balance between national sovereignty and international economic cooperation. By comprehensively analyzing the causes, evolution, and impacts of the U.S.-China trade war, this paper aims to provide valuable insights for policymakers, businesses, and scholars, and to contribute to the ongoing debate on how to navigate the challenges of an increasingly complex and fragmented global economic environment.

2. Background and Evolution of the U.S.-China Trade War

2.1. Pre-Trade War Trade Relationship

Before the eruption of the trade war, the U.S.-China trade relationship was characterized by deep integration and mutual dependence. Since China's accession to the World Trade Organization (WTO) in 2001, bilateral trade between the two countries had grown exponentially. China became a major exporter of a wide range of goods to the U.S., including consumer electronics, textiles, and furniture. For example, Apple's iPhones, although designed in the U.S., were largely assembled in China using components sourced from various parts of the world, highlighting the complex global value chain with China as a crucial link. In 2017, the total bilateral trade volume reached approximately 636 billion, with the U.S. running a significant trade deficit of around 375 billion .

This trade relationship was based on the principle of comparative advantage. China, with its abundant and relatively low-cost labor force, had a competitive edge in labor-intensive manufacturing. In contrast, the U.S., with its advanced technology, high-level R&D capabilities, and strong intellectual property protection, dominated in sectors such as aerospace, pharmaceuticals, and high-tech services. American companies like Boeing sold aircraft worth billions of dollars to Chinese airlines, while Chinese manufacturers supplied the U.S. market with affordable consumer goods that were widely available in big-box stores across the country.

However, beneath the surface of this seemingly symbiotic relationship, tensions were brewing. The large U.S. trade deficit with China became a political issue in the U.S., with some policymakers arguing that China's trade practices were unfair and harmful to the U.S. economy. Concerns were also raised about China's growing technological capabilities and its potential threat to U.S. technological leadership.

2.2. Onset of the Trade War in 2018

The trade war officially began in 2018 when the Trump administration, citing concerns over the trade deficit, intellectual property theft, and unfair trade practices, initiated a series of tariff hikes on Chinese imports. In March 2018, the U.S. imposed tariffs on steel and aluminum imports from China, among other countries, under the pretext of national security (U.S. Department of Commerce, 2018). Subsequently, in July, the U.S. imposed a 25% tariff on $34 billion worth of Chinese goods, mainly targeting high-tech products such as aerospace, information and communication technology, and machinery. China quickly retaliated, imposing equivalent tariffs on U.S. products, including agricultural goods like soybeans and pork.

The tariff escalations continued throughout 2018. In September, the U.S. announced a 10% tariff on an additional 200 billion of Chinese imports, which was later increased to 25% in May 2019. China, in response, imposed tariffs on 60 billion of U.S. goods. These tariff measures led to an immediate impact on bilateral trade. U.S. farmers, for example, faced significant losses as their exports of soybeans to China, a major market, plummeted. Chinese exporters of consumer electronics and textiles also saw a decline in orders from the U.S. as the higher tariffs made their products more expensive.

The trade war also had a psychological impact on businesses and investors. Uncertainty about future trade policies led many companies to delay investment decisions. Multinational corporations with supply chains in China and the U.S. began to consider diversifying their production bases to mitigate the risks associated with the trade war. For instance, some apparel manufacturers started to shift production from China to Southeast Asian countries like Vietnam and Bangladesh.

2.3. Policy Continuity and Changes under the Biden Administration

When the Biden administration took office in 2021, there was initial speculation about a potential de-escalation of the U.S.-China trade war. However, the Biden administration largely maintained the Trump-era tariffs on Chinese goods, citing the need to protect U.S. workers and industries. While the Biden administration signaled a more multilateral approach to trade, it also continued to pursue a tough stance on China, especially in areas such as technology and national security.

The Biden administration introduced new policies aimed at reshaping the U.S. economy and reducing its reliance on foreign supply chains. The Infrastructure Investment and Jobs Act, passed in 2021, allocated significant funds for domestic infrastructure projects, with the intention of boosting domestic manufacturing and job creation. In the technology sector, the Biden administration continued to impose export controls on high-tech products to China, further restricting China's access to advanced technologies. For example, in 2022, the U.S. expanded restrictions on the export of semiconductor manufacturing equipment to China, aiming to hamper China's semiconductor industry development.

The Biden administration also engaged in efforts to build alliances with other countries to counter China's economic influence. It promoted the Indo-Pacific Economic Framework for Prosperity (IPEF), which aimed to strengthen economic cooperation among participating countries in the Indo-Pacific region. However, the IPEF faced challenges in terms of member consensus and implementation, and its impact on the U.S.-China trade relationship remained uncertain.

2.4. The Escalation to Trade War 2.0 in 2025

In 2025, with the re-election of the Trump administration, the U.S.-China trade war entered a more aggressive phase, dubbed Trade War 2.0. The Trump administration announced even higher tariffs on Chinese imports. In February 2025, a 10% tariff was imposed on all imports from China (including Hong Kong), which was quickly doubled to 20% in March and further escalated to 145% for some goods in April (Ju & Hou, 2025). These tariff hikes were not only much steeper but also covered an even wider range of products, including consumer goods that were previously less affected, such as clothing, toys, and household appliances.

In addition to tariffs, the U.S. implemented more stringent investment restrictions and technology decoupling measures. The Committee on Foreign Investment in the United States (CFIUS) tightened its scrutiny of Chinese investments in the U.S., especially in high-tech sectors. For example, it blocked several Chinese acquisitions of U.S. technology startups on national security grounds. The U.S. also expanded its export controls on advanced technologies, such as artificial intelligence chips, quantum computing, and advanced materials, making it extremely difficult for Chinese companies to access these critical technologies.

Trade War 2.0 had an immediate and severe impact on global financial markets. Stock markets around the world experienced increased volatility as investors worried about the potential economic slowdown. The Chinese yuan depreciated against the U.S. dollar, and the cost of shipping goods between the U.S. and China soared as trade volumes declined and shipping companies adjusted their rates in response to the uncertain trade environment.

3. Economic Theories and the Trade War

3.1. Tariff Theory and the Impact on Trade Flows

Tariffs, as a key tool in the trade war, are taxes imposed on imported goods. According to traditional trade theory, tariffs increase the price of imported goods in the domestic market, making domestic products relatively more competitive. In the context of the U.S.-China trade war, the U.S. tariffs on Chinese goods were expected to reduce the quantity of Chinese imports and promote domestic production. However, the real-world impact has been more complex.

The U.S. tariffs on Chinese goods initially led to a decline in Chinese exports to the U.S. For example, in the first few months after the tariff hikes in 2018, Chinese exports of furniture and consumer electronics to the U.S. decreased significantly. But over time, several factors mitigated the full impact of tariffs. Chinese exporters, in some cases, absorbed part of the tariff cost by reducing profit margins to maintain their competitiveness in the U.S. market. In other instances,

they passed on some of the cost to U.S. consumers, leading to price increases. A study by Amiti et al. (2019) found that the U.S. tariffs on Chinese goods had led to a significant increase in the prices of affected products in the U.S. market, reducing consumer welfare.

Moreover, the trade war also led to trade diversion. Instead of reducing its overall imports, the U.S. shifted its sourcing from China to other countries. For instance, U.S. imports of certain consumer goods from Vietnam and Mexico increased as companies sought to avoid the high tariffs on Chinese products. This trade diversion effect meant that the U.S. tariffs did not achieve the desired goal of reducing the overall trade deficit but rather reallocated trade flows among different countries.

3.2. Global Value Chain Theory and Supply Chain Disruptions

The modern global economy is characterized by complex global value chains (GVCs), where production processes are fragmented across multiple countries. China has long been an integral part of these GVCs, serving as a major manufacturing and assembly hub. In the smartphone industry, many components are produced in different countries, with final assembly often taking place in China before being exported to the U.S. and other markets.

The U.S.-China trade war disrupted these GVCs. Higher tariffs increased the cost of moving goods across borders, forcing companies to reevaluate their supply chain strategies. Some multinational corporations started to diversify their production bases to reduce their exposure to the trade war risks. Apple, for example, explored options to shift some of its iPhone production from China to India. This process of "reshoring" or "nearshoring" production was not without challenges. New production locations often lacked the same level of infrastructure, skilled labor, and supplier networks as China, leading to higher costs and potential disruptions in the short term.

The trade war also affected the flow of intermediate goods. Since many Chinese manufacturers rely on imported intermediate goods from the U.S. and other countries, the tariffs and export restrictions disrupted the supply of these critical inputs. Chinese semiconductor manufacturers faced difficulties in obtaining advanced semiconductor manufacturing equipment from the U.S., which hampered their production and growth. The disruption of GVCs not only increased costs for businesses but also had a negative impact on global economic efficiency as resources were reallocated in a less optimal way.

3.3. Strategic Trade Theory and Technological Competition

Strategic trade theory posits that in certain industries with high barriers to entry and economies of scale, government intervention can help domestic firms gain a competitive edge in the global market. In the context of the U.S.-China trade war, both countries have used strategic trade policies to promote their domestic high-tech industries.

The U.S. has long been a leader in high-tech sectors such as semiconductors, aerospace, and software. To maintain its technological edge, the U.S. has imposed export controls on advanced technologies to China, arguing that these technologies could pose a threat to national security if they fall into Chinese hands. The restrictions on the export of semiconductor manufacturing equipment and high-performance computing chips aimed to limit China's ability to develop its own advanced semiconductor and supercomputing capabilities.

China, on the other hand, has implemented policies to promote self-reliance in high-tech industries. The "Made in China 2025" initiative, launched in 2015, aimed to upgrade China's manufacturing sector and increase its competitiveness in high-tech fields such as robotics, electric vehicles, and aerospace. In response to the U.S. technology restrictions, China has increased its investment in domestic R&D, encouraged the development of domestic supply chains for critical technologies, and provided support for domestic high-tech startups. The competition between the U.S. and China in high-tech industries has not only economic implications but also geopolitical significance, as technological leadership is increasingly seen as a key determinant of national power in the 21st century.

4. Causes of the US - China Trade War

4.1. Trade Imbalance

The large and persistent trade deficit that the United States has with China has been a major point of contention. According to the data from the US Census Bureau, the US trade deficit with China has been substantial in recent decades. For example, in 2017, before the trade war started, the US goods trade deficit with China was approximately $375 billion. Amiti et al. (2019) in their study argued that the US administration considered the trade imbalance as a sign of unfair trade practices by China, which was one of the triggers for the trade war. They pointed out that the perception of the trade deficit as a problem led to the implementation of tariffs as a means to correct the imbalance.

However, some scholars have a different view on the root cause of the trade imbalance. Feenstra et al. (2019) argued that the trade imbalance between the US and China is more a result of global value chains and the structure of the US economy. They suggested that the US consumer demand for low - cost consumer goods, combined with China's position as a major manufacturing hub in the global value chain, contributed to the large trade deficit. The US has a high consumption - based economy, and China's manufacturing capabilities, enhanced by its large-scale infrastructure investment and a well-educated labor force, made it an attractive source for imports.

4.2. Technological Competition

The rise of China in high - tech industries has also been a major factor contributing to the trade war. China's efforts in developing advanced technologies such as 5G, artificial intelligence, and semiconductors have challenged the traditional technological leadership of the United States. Dollar (2022) pointed out that the US has implemented various measures, including export controls and investment restrictions, in response to China's technological advancements. The US government has listed many Chinese high-tech companies, such as Huawei, on the “entity list”,restricting US companies from selling inputs or licensing technology to these firms.

China has been making significant investments in research and development to promote technological self-sufficiency. The “Made in China 2025” plan, announced in 2015, aimed to upgrade China's manufacturing industries and achieve technological leadership in key areas. Although China has

downplayed the numerical market - share targets in the plan in response to international criticism, it has not abandoned its goal of technological upgrading. On the other hand, the US has also been strengthening its own technological capabilities. In 2022, the US Congress passed new bills to increase investment in R&D, especially in semiconductor production, with $52 billion in subsidies, as well as significant investment in other emerging technologies like artificial intelligence, robotics, and quantum computing (Dollar, 2022). This technological competition has escalated the trade tensions between the two countries.

4.3. Domestic Political Factors

Domestic political considerations in the United States also played a role in the initiation of the trade war. Some politicians in the US used the issue of trade with China as a means to gain political support. Bown (2019) in “Trump's Tariffs” in the Peterson Institute for International Economics Policy Brief noted that the US administration promised to take tough actions on trade to address the concerns of certain domestic interest groups, such as some manufacturing industries that have faced competition from Chinese imports. By imposing tariffs on Chinese goods, the US government aimed to show that it was taking steps to protect domestic jobs and industries.

In addition, there was a growing sentiment in the US Congress and among some policymakers that China's economic rise needed to be contained. The perception that China was not playing by the “rules-based international order” in trade and economic matters was used to justify the trade war. However, some scholars have criticized this view, arguing that the so-called “rules-based international order” was often shaped by the developed countries, especially the US, and did not fully accommodate the development needs of emerging economies like China (Rodrik, 2018).

5. Impacts of the US - China Trade War

5.1. Impacts on Trade Flows

5.1.1. Bilateral Trade

The trade war had an immediate and significant impact on bilateral trade between the US and China. After the implementation of tariffs, the volume of trade between the two countries declined. Fajgelbaum et al. (2020) found that the US-China trade war led to a reduction in the value of goods traded between the two countries. The US tariffs on Chinese goods made Chinese products more expensive in the US market, leading to a decrease in US imports from China. Similarly, China's retaliatory tariffs made US products less competitive in the Chinese market, reducing China's imports from the US.

However, the trade patterns also showed some complex changes. Some US importers shifted their sourcing from China to other countries to avoid the tariffs. For example, some low-tech manufacturing products that were previously imported from China, such as clothing and furniture, saw an increase in imports from Southeast Asian countries. At the same time, China also increased its imports from other countries to meet domestic demand. But in general, the overall volume of bilateral trade between the US and China decreased during the initial stages of the trade war.

5.1.2. Global Trade

The US-China trade war also had spill - over effects on global trade. Fajgelbaum et al. (2022) studied the impact of the US-China trade war on global trade. They found that since most countries' exports to the US are complementary and to China are substitutable, and part of the supply curves for exports to China are downward-sloping, the trade war led to countries reducing exports to China and increasing exports to the US and other countries. They used HS6-digit global bilateral trade data from the Comtrade database from 2014.1-2019.12, covering 50 major countries accounting for 95.9% of world trade, and divided it into 9 industries. Their research showed that the trade war did not significantly reduce the international trade of products subject to tariffs, and the global trade of these products even increased to some extent.

The trade war also led to a re-evaluation and restructuring of global value chains. Many multinational companies began to consider diversifying their production bases to reduce the risk of being affected by trade disputes. For example, some companies that previously had a large part of their production in China started to explore options in other countries in Southeast Asia, South Asia, and even in the Americas (Baldwin and Freeman, 2020).

5.2. Impacts on Economic Growth

5.2.1. In the United States

The trade war had mixed impacts on the US economy. On one hand, the tariffs on Chinese imports increased the costs for US businesses and consumers. Amiti et al. (2019) estimated that the 2018 trade war led to a welfare loss for US consumers and firms. The higher prices of imported goods due to tariffs reduced consumers' purchasing power and increased the production costs for US firms that rely on imported inputs. For example, in the US manufacturing sector, many small and medium - sized enterprises faced higher costs for raw materials and intermediate goods imported from China, which affected their competitiveness and profitability.

On the other hand, some US industries that were expected to benefit from the trade war, such as certain agricultural products that could potentially replace imports from China, did not necessarily see significant growth. The retaliatory tariffs by China on US agricultural products, such as soybeans, led to a decline in US agricultural exports to China, causing losses for US farmers. In addition, the uncertainty created by the trade war also affected business investment decisions in the US. Many companies postponed or scaled back their investment plans due to the unclear trade policy environment, which had a negative impact on long - term economic growth (Bloom, 2014).

5.2.2. In China

In China, the trade war also brought challenges. The decline in exports to the US due to tariffs affected some export - oriented industries, especially those in the low - end manufacturing sectors. Yu (2021) analyzed the potential losses and gains for China from the trade war. He pointed out that some labor - intensive industries in China, such as textiles and toys, faced difficulties as US demand decreased. However, China also took measures to promote domestic consumption and expand trade with other countries. The Chinese government implemented a series of policies to support domestic industries, such as increasing investment in infrastructure construction in the domestic market to boost domestic demand. At the same time, China actively promoted free trade agreements with other countries, such as joining RCEP in 2022, to reduce its reliance on the US market.

Moreover, the trade war also provided an opportunity for

China to accelerate the transformation and upgrading of its industries. The pressure from the trade war forced Chinese companies to increase investment in research and development, improve product quality, and enhance their competitiveness in the global market. For example, in the high - tech industry, Chinese companies increased their efforts to develop core technologies to reduce their dependence on foreign technology imports.

5.3. Impacts on Industries

5.3.1. High - Tech Industries

The high - tech industries were among the most affected by the trade war. In the semiconductor industry, the US restrictions on exports of advanced semiconductor manufacturing equipment and technology to China had a significant impact on China's semiconductor development. Chen and Song (2023) studied the impact on China's information and communication technology (ICT) industry. They found that the trade war had a negative impact on the technological innovation of the Chinese ICT industry, especially for low - financing - constraint enterprises and private enterprises. The reduction in technological innovation was mainly due to a decrease in the number of invention patent applications, which represent the highest-tech content, rather than changes in R&D investment.

In the US, the high - tech industry also faced challenges. Some US high - tech companies that rely on the Chinese market, such as Apple and Intel, saw a decline in their sales and market share in China due to the trade war and the associated anti-US sentiment among some Chinese consumers. In addition, the restrictions on cooperation with Chinese companies also limited the business opportunities and innovation capabilities of some US high-tech firms. For example, the ban on US companies from doing business with Huawei reduced the potential market for US suppliers of components and software for Huawei's products.

5.3.2. Agricultural Industries

The agricultural sectors in both the US and China were also significantly affected. In the US, farmers who produce soybeans, corn, and other agricultural products that are major exports to China suffered losses. China's retaliatory tariffs on US agricultural products made these products more expensive in the Chinese market, leading to a sharp decline in US agricultural exports to China. The American Farm Bureau Federation (2019) in its report “The Impact of Tariffs on American Agriculture” pointed out that US farmers faced lower prices for their products, reduced income, and increased financial stress.

In China, although the country is a large agricultural producer, the trade war also affected its agricultural supply chain. The reduction in imports from the US led to a need to find alternative sources of agricultural products, which sometimes caused price fluctuations in the domestic market. For example, the decrease in US soybean imports forced China to increase imports from other countries such as Brazil, which affected the global soybean price and trade patterns.

5.4. Impacts on Investment

5.4.1. Outward Foreign Direct Investment (OFDI) from China

The US-China trade war had an impact on China's outward foreign direct investment. Zhang et al. (2025)found that the US tariffs had a “chilling effect”on China's OFDI. However, it also potentially led to “tariff-jumping” behavior, where Chinese investors increased direct investment in the US to avoid tariffs. The trade war also influenced China's investment destination choices. Chinese investors were more likely to invest in countries with good political relations with China to hedge against potential declines in bilateral relations. At the same time, the trade war may have reduced the willingness of Chinese state-owned enterprises to engage in overseas investment, although there was no significant shift in investment flows to Belt and Road Initiative (BRI) countries.

5.4.2. Inward Foreign Direct Investment (IFDI) in the United States

The trade war also affected the US's ability to attract foreign direct investment. The uncertainty created by the trade war made some foreign investors hesitant to invest in the US. The EY Global Capital Confidence Barometer (2019)showed that the trade war was one of the major factors that affected investors' confidence in the US. The higher costs and potential trade-related risks associated with investing in the US due to the trade war led some companies to consider alternative investment destinations. In addition, the trade war also affected the investment strategies of US- based multinational companies. Some companies adjusted their global investment plans to reduce the impact of trade barriers and supply-chain disruptions.

6. Policy Responses

6.1. Policy Responses in China

6.1.1. Trade Liberalization Measures

China has continued to promote trade liberalization despite the trade war. After joining the WTO in 2001, China's average applied tariff rate decreased from 14.7% to 7.7% and then further declined to 2.5% in 2020 (Dollar, 2022). China has also signed free trade agreements with many neighboring countries. In 2022, China joined the Regional Comprehensive Economic Partnership (RCEP), which involves ASEAN, China, Japan, South Korea, Australia, and New Zealand and eliminates tariffs on 90% of goods. In addition, China has applied to join the Comprehensive and Progressive Agreement for Trans - Pacific Partnership (CPTPP). These measures aim to expand China's trade opportunities, reduce its dependence on the US market, and enhance its position in the global trading system.

6.1.2. Support for Domestic Industries

The Chinese government has implemented a series of policies to support domestic industries. It has increased investment in research and development to promote technological innovation, especially in key industries such as high - tech and advanced manufacturing. The government has also provided financial support and tax incentives to help domestic enterprises upgrade their technologies, improve product quality, and enhance their competitiveness. For example, the “Made in China 2025”plan, although adjusted in response to international concerns, still emphasizes the importance of technological upgrading in Chinese manufacturing industries. In addition, the government has promoted the development of domestic supply chains to reduce dependence on foreign suppliers, especially in strategic industries.

6.2. Policy Responses in the United States

6.2.1. Continued Tariff Policy

The US initially continued its tariff policy during the trade

war. However, over time, there have been some adjustments. For example, in the solar energy industry, due to the negative impacts of tariffs on the domestic industry, such as a decline in solar panel imports, reduced investment in solar installation and energy storage, and the threat to thousands of jobs, the White House announced a 24 - month suspension of tariffs on photovoltaic products in June 2022 (Dollar, 2022). This

6.2.2. Industrial Policies and Subsidies

The U.S. government has also introduced a series of industrial policies and subsidy measures to enhance the competitiveness of domestic industries. The CHIPS and Science Act passed in 2022 provides $52 billion in subsidies for the U.S. semiconductor industry, aiming to promote the reshoring of semiconductor manufacturing and reduce reliance on foreign supply chains . This act includes funding for semiconductor research and development, manufacturing incentives, and workforce training, with the goal of strengthening the U.S. position in the global semiconductor industry.

In addition, the Inflation Reduction Act (IRA) of 2022 provides substantial subsidies for clean energy and climate-related industries, such as electric vehicles, renewable energy, and battery production. These subsidies are designed to promote the development of domestic clean energy industries, create jobs, and reduce greenhouse gas emissions. However, some of these subsidy policies have sparked disputes with U.S. allies, who argue that the policies contain protectionist elements that disadvantage their industries.

6.3. Multilateral and Regional Cooperation

Amid the U.S.-China trade war, many countries and regions have turned to multilateral and regional cooperation to mitigate the negative impacts of trade tensions. RCEP, which came into effect in 2022, includes 15 Asia-Pacific countries and aims to reduce tariffs, streamline trade procedures, and promote investment among member states. Petri et al. (2022) estimate that RCEP could increase global real income by $186 billion annually by 2030, with China, Japan, and Southeast Asian countries being major beneficiaries. The agreement helps member states diversify their trade partners and reduce dependence on single markets, thereby enhancing resilience in the face of global trade uncertainties.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) has also attracted new members, with countries such as the United Kingdom applying to join. The CPTPP, which includes 11 countries, focuses on high-standard trade rules, including market access, intellectual property protection, and digital trade. By deepening regional economic integration, these agreements provide alternative platforms for international trade and investment, offsetting some of the negative effects of the U.S.-China trade war (Baldwin, 2021).

7. Trade War 2.0: New Developments and Challenges

7.1. Policy Characteristics of Trade War 2.0

Since the start of the Trump administration's second term in 2025, the U.S.-China trade conflict has entered a more radical phase, referred to as Trade War 2.0. The Trump administration has adopted more aggressive tariff strategies, including imposing higher tariffs on a wider range of Chinese goods. For example, in February 2025, the U.S. announced a 10% tariff on all imports from China (including Hong Kong), which was doubled to 20% in March, and further escalated to 145% for some goods in April (Ju & Hou, 2025). These tariff increases are broader in scope and higher in rate than those in Trade War 1.0, covering not only traditional manufacturing products but also high-tech goods and consumer electronics.

In addition to tariffs, Trade War 2.0 has expanded to other policy areas, such as investment restrictions and technology decoupling. The U.S. has strengthened reviews of foreign investments through the Committee on Foreign Investment in the United States (CFIUS), imposing stricter limits on Chinese investments in U.S. high-tech sectors. It has also expanded export controls on advanced technologies, such as artificial intelligence chips, quantum computing, and advanced materials, aiming to restrict China's access to critical technologies.

7.2. Economic Logic and Constraints of Trade War 2.0

The policy logic behind Trade War 2.0 is rooted in the Trump administration's "America First" doctrine and the so-called "cost-sharing" theory proposed by Stephen Miran, Chairman of the Council of Economic Advisers. Miran argues that the U.S. bears the costs of providing global public goods such as dollar hegemony and military security, while other countries "free-ride." He suggests using tariffs to force other countries, especially trade surplus countries like China, to share these costs (Miran, 2025).

However, this logic faces significant economic constraints. First, high tariffs have pushed up inflation in the U.S. A study by the Yale University Budget Lab estimates that the 2025 tariff measures could increase U.S. consumer prices by 2.9% in the short term, reducing the average household's purchasing power by about $4,700. Second, the U.S. faces mounting debt pressures. The federal government's debt-to-GDP ratio has exceeded 130%, and the uncertainty caused by the trade war could lead to a sell-off of U.S. Treasury bonds by foreign holders, increasing financing costs .

7.3. Global Trade System: Toward Non-Cooperative Equilibrium

Trade War 2.0 has raised concerns about the fragmentation of the global trade system. The U.S.'s unilateral tariff actions have violated the principles of WTO, weakening the authority of the multilateral trading system. Many countries have responded with retaliatory tariffs: China, for example, imposed reciprocal tariffs on U.S. goods, while the EU and Canada also announced plans to retaliate against U.S. tariffs on steel, aluminum, and automobiles (Ju&Hou, 2025). This tit-for-tat tariff war could push the global trade system toward a non-cooperative equilibrium, where each country pursues its own interests through protectionist measures, leading to higher global trade costs and reduced economic efficiency.

The shift toward non-cooperative equilibrium is also reflected in the restructuring of global value chains. Multinational companies are accelerating the diversification of their supply chains, moving production bases from China to Southeast Asia, Mexico, or other “friendly” countries ("friend-shoring"). While this reduces reliance on China, it also increases production costs and complicates supply chain management (Grossman et al., 2024). For example, U.S. imports from Vietnam and Mexico have increased, but these countries rely heavily on Chinese intermediate goods, meaning the U.S. remains indirectly dependent on China

(Alfaro & Chor, 2023).

8. Long-Term Implications for Global Economic Governance

8.1. Decline of Multilateralism and Rise of Regionalism

The U.S.-China trade war has accelerated the decline of multilateralism in global economic governance. The WTO dispute settlement mechanism has been paralyzed due to U.S. blocking of appellate body appointments, making it difficult to resolve trade disputes effectively (Bown, 2021). In its place, regional trade agreements (RTAs) have become more prominent. Agreements such as RCEP, CPTPP, and the U.S.-Mexico-Canada Agreement (USMCA) are shaping new trade rules, leading to a more fragmented global trading system divided along regional lines.

This shift has both opportunities and challenges for emerging economies. On one hand, RTAs can provide new market access and promote regional economic integration. On the other hand, overlapping rules and standards in different RTAs increase compliance costs for businesses, especially small and medium-sized enterprises (SMEs). For example, a company exporting to both RCEP and CPTPP member states must comply with different rules of origin, which can be costly and complex.

8.2. Technological Competition and Global Innovation

The trade war has intensified global technological competition, with both the U.S. and China investing heavily in key technologies to gain a competitive edge. The U.S. has focused on maintaining leadership in artificial intelligence, semiconductors, and biotechnology, while China has prioritized self-reliance in high-tech sectors through policies such as "Dual Circulation" and increased R&D spending.

While technological competition can drive innovation, it also risks splitting the global innovation ecosystem. Restrictions on technology transfers and scientific collaboration between the U.S. and China could slow down global progress in addressing shared challenges such as climate change and pandemics. For example, reduced cooperation in clean energy technology could hinder global efforts to transition to renewable energy.

8.3. Currency and Financial System Changes

The trade war has also triggered discussions about reforming the global currency and financial system. The U.S.'s use of dollar hegemony to impose economic sanctions and tariffs has prompted some countries to seek alternatives to the dollar in international trade and investment. For example, China has promoted the use of the yuan in bilateral trade with Russia, Saudi Arabia, and other countries, while the EU has explored the use of the euro in energy trading (Eichengreen, 2023).

However, the dollar's dominant position remains strong due to the depth and liquidity of U.S. financial markets, the size of the U.S. economy, and network effects in global trade. The transition to a multi-currency system is likely to be gradual and could increase volatility in global financial markets. For instance, fluctuations in exchange rates between major currencies could complicate international trade and investment decisions, increasing hedging costs for businesses.

9. Conclusion, Future Outlook and Scenarios

9.1. Conlusion

The U.S.-China trade war, from 1.0 to 2.0, has had profound and far-reaching impacts on global trade, economic growth, industrial structure, and technological innovation. The literature reviewed in this paper highlights several key findings:

Trade and Welfare Effects: The trade war has led to welfare losses in both the U.S. and China, with U.S. consumers and firms bearing significant costs from tariffs. Bilateral trade between the two countries has declined, but trade diversion has benefited other countries, leading to a restructuring of global trade patterns.

Industrial and Supply Chain Impacts: The U.S. goal of promoting manufacturing reshoring has had limited success, while global supply chains have become more fragmented, with companies diversifying production to avoid tariffs. China has shown resilience in real economy and made progress in emerging technologies, despite facing technological containment.

Trade War 2.0 Challenges: The more aggressive tariff strategies in Trade War 2.0 have raised risks of higher inflation, financial instability, and a shift toward non-cooperative equilibrium in the global trade system. The U.S. faces constraints from debt and domestic inflation, while China must navigate technological decoupling and maintain economic growth.

Global Governance Implications: The trade war has weakened multilateral institutions like the WTO, leading to a rise in regionalism and technological competition. The long-term implications include potential fragmentation of global value chains and a more multipolar currency system.

9.2. Potential De-escalation Scenarios

There are several potential scenarios for the future of the U.S.-China trade war. One scenario is a gradual de-escalation, with both countries agreeing to reduce tariffs and resolve some of the underlying issues through negotiations. This could be achieved through a comprehensive trade agreement that addresses issues such as intellectual property, market access, and subsidies to state-owned enterprises.

Another scenario is a partial de-escalation, with both countries agreeing to a truce in certain areas while continuing to compete in others, particularly in the technology sector. This could involve the U.S. easing some restrictions on Chinese tech companies in exchange for China making concessions on trade issues.

However, achieving even a partial de-escalation will be challenging given the deep divisions between the U.S. and China. The two countries have fundamentally different views on trade, technology, and global governance, and it will take time and effort to build trust and find common ground.

9.3. Continuation or Escalation of Trade War

Another possible scenario is the continuation or escalation of the trade war. If the U.S. and China fail to reach a negotiated settlement, tariffs could remain in place or even increase, further disrupting global trade and economic growth. The trade war could also expand into other areas, such as investment, technology, and cybersecurity, leading to a more severe decoupling of the two economies.

An escalation of the trade war would have significant

implications for the global economy. It could lead to a global recession, with emerging economies being particularly hard hit. It could also exacerbate geopolitical tensions and increase the risk of conflict.

9.4. Long-Term Implications for U.S.-China Economic Relations

The long-term implications of the trade war for U.S.-China economic relations are likely to be profound. Even if the trade war de-escalates, the two countries are likely to remain competitors in many areas, particularly in technology and geopolitics. This could lead to a more fragmented global economy, with separate supply chains and technology systems for the U.S. and China and their respective allies.

However, there are also opportunities for cooperation between the two countries. They share common interests in addressing global challenges such as climate change, pandemic preparedness, and nuclear non-proliferation. By working together on these issues, the U.S. and China could build trust and lay the foundation for a more constructive economic relationship.

The future of U.S.-China economic relations will depend on a range of factors, including domestic politics in both countries, geopolitical developments, and global economic conditions. It is likely to be a complex and evolving relationship, with both cooperation and competition.

9.4.1. Impact on Developing Countries

Developing countries, which often rely heavily on international trade, have been significantly affected by the U.S.-China trade war. Many of these countries are highly dependent on exports to either the U.S. or China, or both, and the trade disruptions have had a negative impact on their economic growth.

For example, countries in Southeast Asia that are part of the global supply chain for electronics and apparel have seen their exports fluctuate as companies shift production to avoid tariffs. Vietnam, which has emerged as a major manufacturing hub, saw its exports to the U.S. increase by 29% in 2019, but this growth was uneven and some industries faced challenges due to increased competition and supply chain disruptions.

Commodity-exporting countries, such as Brazil and Australia, have also been affected. Brazil's soybean exports to China increased as a result of the trade war, but other commodities such as iron ore saw price volatility due to uncertainties in the Chinese economy. Australia, which exports a large amount of coal and natural gas to China, faced trade restrictions from China in 2020, which had a significant impact on its economy .

The trade war has also made it more difficult for developing countries to access international markets and attract foreign investment. The increased uncertainty and higher trade barriers have led to a decline in global trade, which has disproportionately affected developing countries that rely on trade for economic growth and poverty reduction.

9.4.2. Changes in Corporate Strategies

In response to the trade war, multinational corporations have adopted a range of strategies to mitigate risks and maintain profitability. One common strategy is "China Plus One", where companies maintain their operations in China but also establish production facilities in other countries to diversify their supply chains. This approach allows companies to reduce their dependence on China while still taking advantage of its large market and manufacturing capabilities.

For example, Samsung, which has long been a major investor in China, has expanded its production facilities in Vietnam and India. This has allowed the company to avoid some of the tariffs on exports to the U.S. while also tapping into the growing consumer markets in Southeast Asia.

Another strategy is to localize production in the target market. Companies that export to the U.S. from China have considered building factories in the U.S. to avoid tariffs. However, this is often costly and time-consuming, and it requires a significant investment in infrastructure and workforce training.

Some companies have also focused on innovation and product differentiation to reduce their vulnerability to tariffs. By developing high-value-added products that are less sensitive to price changes, companies can maintain their competitiveness even in the face of higher tariffs.

9.4.3. Technological Competition and Innovation

The ongoing technological competition between the U.S. and China is likely to continue, with significant implications for global innovation. Both countries are investing heavily in emerging technologies such as artificial intelligence, 5G, and quantum computing, and this competition could drive rapid technological progress.

However, the trade war and the associated technology restrictions could also slow down global innovation by limiting the exchange of ideas and expertise. Collaboration between researchers and companies from different countries has long been a driver of innovation, and restrictions on this collaboration could hinder progress in critical areas.

For example, the U.S. restrictions on Huawei have not only affected the company's ability to innovate but also have had a negative impact on U.S. companies that supply Huawei with components and software. Qualcomm, a major U.S. semiconductor company, reported a $4.4 billion decline in revenue in 2019 due to the restrictions on sales to Huawei .

The competition for technological leadership is also likely to lead to increased investment in research and development, which could benefit the global economy in the long run. However, it is important to ensure that this competition is conducted in a way that promotes innovation and benefits all countries, rather than leading to a technological arms race and increased geopolitical tensions.

10. Lessons Learned from the Trade War

The U.S.-China trade war has provided several important lessons for policymakers, businesses, and the global community. One key lesson is the importance of multilateralism and international cooperation in addressing global economic challenges. The trade war has shown that unilateral actions and protectionist policies can have negative consequences for all countries, and that a rules-based multilateral trading system is essential for promoting global trade and economic growth.

Another lesson is the need for greater transparency and communication between countries. The trade war was exacerbated by a lack of trust and understanding between the U.S. and China, and better communication could have helped to avoid some of the misunderstandings and escalations.

Businesses have also learned the importance of supply chain resilience. The trade war has highlighted the risks of relying on a single country or region for production, and

companies are now taking steps to diversify their supply chains and build more resilient operations.

Finally, the trade war has shown that economic interdependence is a double-edged sword. While it can bring significant benefits, it also creates vulnerabilities that can be exploited during times of conflict. Countries and businesses need to find a balance between interdependence and self-reliance to ensure economic stability and security.

To address the challenges posed by the U.S.-China trade war and build a more stable and prosperous global economy, several recommendations can be made:

Strengthen multilateral institutions: The WTO and other international organizations need to be reformed to make them more effective and responsive to the needs of all countries. This includes addressing issues such as dispute settlement, subsidies, and intellectual property rights.

Promote dialogue and cooperation: The U.S. and China should establish regular channels of communication to discuss trade and economic issues and resolve disputes through negotiation rather than confrontation. This could include the establishment of a high-level economic dialogue mechanism.

Reduce trade barriers: Both countries should work to reduce tariffs and other trade barriers, particularly in areas that are important for global economic growth, such as technology and agriculture. This would benefit businesses and consumers in both countries and promote global trade.

Support developing countries: The international community should provide greater support to developing countries to help them adapt to the changing global economic environment and take advantage of trade opportunities. This could include technical assistance, capacity building, and increased access to markets.

Encourage innovation and technology sharing: Countries should work together to promote innovation and technology sharing, while also protecting intellectual property rights. This would drive global economic growth and address global challenges such as climate change and public health.

Promote sustainable and inclusive growth: Economic policies should be designed to promote sustainable and inclusive growth, ensuring that the benefits of economic growth are shared by all segments of society. This includes addressing issues such as income inequality, poverty, and environmental sustainability.

The U.S.-China trade war has been a significant event in the global economy, with far-reaching implications for trade, investment, and economic growth. While the trade war has caused significant disruptions and challenges, it has also provided an opportunity to reflect on the state of the global economic order and the need for reform.The future of the U.S.-China economic relationship will be critical to the global economy, and it is essential that both countries find a way to manage their differences and work together to address common challenges. By strengthening multilateral institutions, promoting dialogue and cooperation, and reducing trade barriers, the global community can build a more stable, prosperous, and inclusive global economic future.The road ahead will not be easy, but with commitment and cooperation from all countries, it is possible to overcome the challenges posed by the trade war and create a better world for future generations.

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