

Analysis Of the Game Logic and Economic Effects of China-US Tariff Policies

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Abstract. The purpose of this research is to delve into the game logic and economic effects of China-US tariff policies, with a primary focus on incidents during Trump's presidency, starting from 2018. Explore different economic trade-offs and effects from perspectives such as the prisoner's dilemma, the game of Chicken, and externalities to other countries. This essay will help you better understand the motivations and intentions behind Trump's tariffs and the logic behind China's countermeasures through bilateral perspectives. Resources used in this essay are not only from official sources and the data of trading transactions, but also from Political leaders and the governments they represent, who demonstrate their political objectives through language, rhetoric, and framing. Furthermore, the ramifications of trade conflicts between the United States—a hegemonic power with considerable influence over the global economy—and China, as an emerging economic giant, will be examined to provide a comprehensive concluding analysis. Further studies are needed to establish the post-effect of trade wars regarding the international standing and the trading in an open market with the rest of the world for both the US and China.

Keywords: China-US trade war; Tariff; Game logic; Trump; Exports.

1. Introduction

The prosperity of China in international trade all started from its inclusion in the WTO, which was ushered in by America. “Bringing China into the WTO is a win-win decision.” Said President William Jefferson Clinton. He also delivered remarks on permanent normal trade relations with China at the white house in 2000. Opening China's market to international goods and services has been made possible in large part by the WTO. China has benefited greatly economically from this openness. However, the trade deficit increased dramatically in the US between 2002-2017, reaching a record high of \$375 billion. (Figure 1). So, it's understandable for Trump to complain about all the years of trade deficit during his election. Start from the 2016 American presidential campaign and the rhetoric of Trump. The US believes that China has engaged in frustrating practices regarding intellectual property, manipulation of its currency, and limited market access for American companies in China. Trump is mainly angry about China being brought into the World Trade Organization; he claims that China is playing on unfair ground and accused China of “raping” the US [1]. He also claimed to get tough on China, as all damages to the domestic industry and jobs in the US were caused by the trade disadvantages. In contrast, China believes that America is trying to prevent it from rising as a major economic power [2]. In 2018, Donald Trump indeed started a trade war to keep his promise of playing tough on China in his first term of presidency. In July 2018, the US started with raised tariffs on imported goods like steel and aluminium. Additionally, China countered with tax waves that targeted billions of US items after the US placed a 25% duty on 34 billion Chinese exports between 2018 and 2019 [3]. Since the trade war, China has doubled its average tariff rate, and America has tripled. (Figure 2) The turning point happened in 2020, when the US and China reached a consensus to halt the tariff escalation. So, both sides showcase their agreement on the phase 1 US-China trade deal, and they pledged not to impose additional tariffs on goods. The result of the phase 1 agreement made China promise to buy more US products and tighten up its intellectual property rules. However, since President Biden's presidency, the US has raised taxes on Chinese exports again. Although Trump and Biden have many divergences, they have almost reached a mutual agreement on being tough towards Chinese exports. In April 2025, the most intensive trade war action took place in Trump's second

presidency. America imposes taxes on Chinese goods, and it rises to 145%. In reciprocal response, China levied retaliatory tariffs on U.S. goods, peaking at 125% for major exports like agricultural products and automobiles.

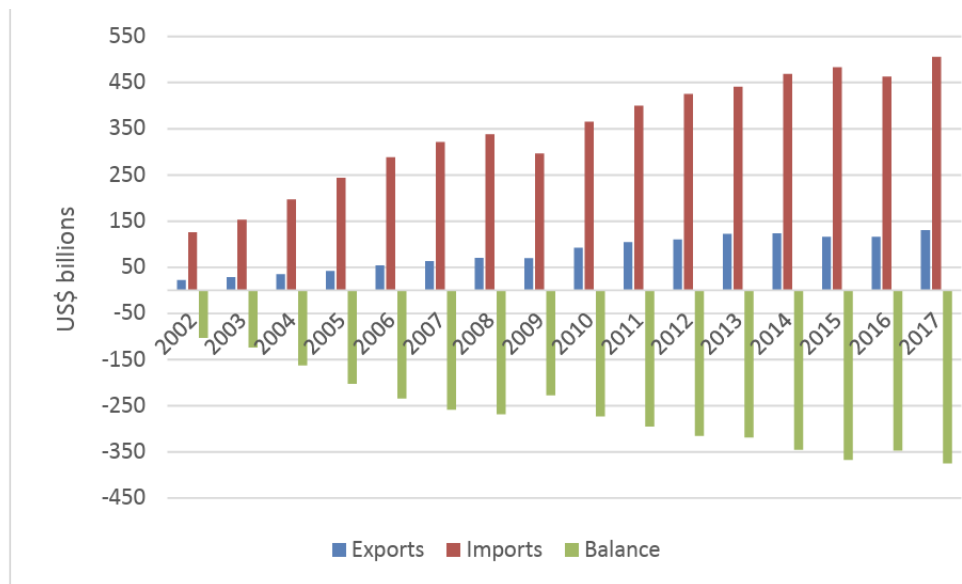


Fig. 1 US-China Balance of Trade, 2002-2017

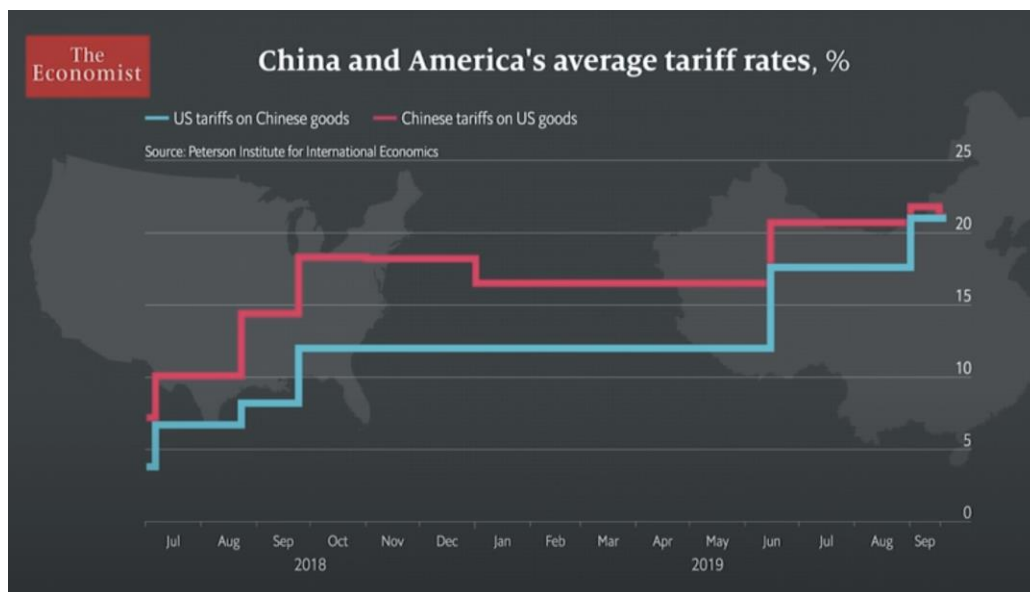


Fig. 2 China and America's average tariff rates, %

2. Causes for the US to impose tariffs

2.1. Reducing dependency on China

The US Government has implemented numerous protectionist policies during the presidencies of Trump and Biden. Those actions are not only for protecting domestic industries, but also for reducing the dependency on China's exports. According to the Trump government, if a conflict broke out, the US could not produce enough cars or weapons using its own industry because it depends too heavily on other nations for its metals [4]. Therefore, they need to reduce their dependency on China's exports to secure the stability of their supply chain and maintain their political leverage. Besides, the Domestic industry for metals and chemicals can generate more profit, because consumers will buy more metals, such as steel and aluminium, from the local industry in theory. China is trying to further promote its competitiveness in the manufacturing industry; one of its significant programs is "Made

in China 2025.” For the US, they have to counter China’s rapid development in industrial production while combating the industrial hollowing inside the country. As a result, the US raised the tax rate and imposed many industrial policies. For example, in 2018, a 25% tariff was imposed on Inorganic chemicals, organic chemicals, and pharmaceutical products for China [5]. An instance is the "CHIPS and Science Act," enacted by President Biden on August 9, 2022 [6]. It’s likely for the US to continuously spend its future effort on the aim of making progress in reindustrializing America through reshoring. Less dependence on industrial products from China can spur the price up for the manufacturing industry in the United States. And GDP can grow through increasing aggregate demand and net exports.

2.2. Reduce trade deficit and financial constraints

Since 2001, China has embarked on a new journey of transforming itself into the “workshop of the world”. Moreover, China’s trade surplus relative to the United States has been steadily increasing. (Figure 3) In contrast, the US is suffering from a twin deficit, which involves a growing trade deficit and a growing budget deficit. Some people argued that the Budget deficit will mitigate the trade deficit, because indirect taxes for government spending will likely increase savings, government borrowing will also increase. As a result, the interest rate will increase, the purchasing power for the public will decrease, and this will reduce the demand for imports. However, in this regard, Erceg, Guerrieri, and Gust discovered that the impacts of the budget deficit on the trade deficit have been reduced due to the poor responsiveness of pricing and switching costs between local and imported commodities. This appears to be untrue in retrospect, though, since the US trade deficit hit a new high in 2006 [7]. Many other countries are accused by America of their competitive currency depreciation, especially China. Although dollar hegemony may have played a role in dollar appreciation, the US tends to emphasize China as a potential exchange rate manipulator. Thus, to establish more stringent guidelines for the exchange rate, the US hopes to use the trade war as leverage in the upcoming negotiating stage. Furthermore, tariffs can help reduce the pressure on government debt and increase the revenue for domestic industries. Trump and his administration think the side effects of the tariff will be minimal and have little effect on inflation. A noticeable viewpoint from Stephan Miran is the perfect currency offset. He believes that tariffs will not exacerbate financial constraints in the US, but China will have an unstable financial market if they retaliate [8].



Fig. 3 US trade with China

2.3. China's rapid development

One of the reasons for the US to initiate tariffs is its crisis awareness of China surpassing the US to become the world's largest economy. Rejuvenation of China started with its willingness to enter the WTO, starting with Deng Xiaoping, who opened China's economy in 1978. Afterwards, China entered the World Trade Organization and opened its doors in 2001. Rapid export growth and its rise to the top of the global manufacturing production rankings are indicators of China's economic rise. (Figure 4). The US was the largest empire in the global production networks due to its strong military power and dollar hegemony. However, considering China's and the rest of the BRIC countries' growing sway on the international trading system, and the impasse in the Doha talks, which was caused by China's economic expansion. To address unfair Chinese practices, the United States has decided to advocate for stricter rules and standards both within the organization and through the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) negotiations [9]. The initial intention was the US's pivot to Asia to counter China and to reassert America's alliances. However, the US withdrew from TTP in January 2027 for its own sake regarding bilateral negotiations and its domestic workers. Eventually, it turns out that TTP went forward in China, which caused the aggravation of the decline of America's influence in Asia. Furthermore, China makes a closer connection with Asia countries further in 2022 by leading the Regional Comprehensive Economic Partnership (RCEP), although it was officially led by the Association of Southeast Asian Nations (ASEAN). The goal of RCEP is to facilitate economic regional integration in East Asia and further expand to the Asia Pacific region. After the mega free trade agreements (FTAs) in force in the Asia region, the US realizes its economic disadvantages caused by China's cooperative moves with other countries. In order to interact with the area methodically and practically, the US launched the Indo-Pacific Strategy (IPS) in 2022. Preventing China's continued growth and reshaping the new US-led GSCs in the global economy are the primary objectives [10].

Figure 4: Nominal GDP, \$bn

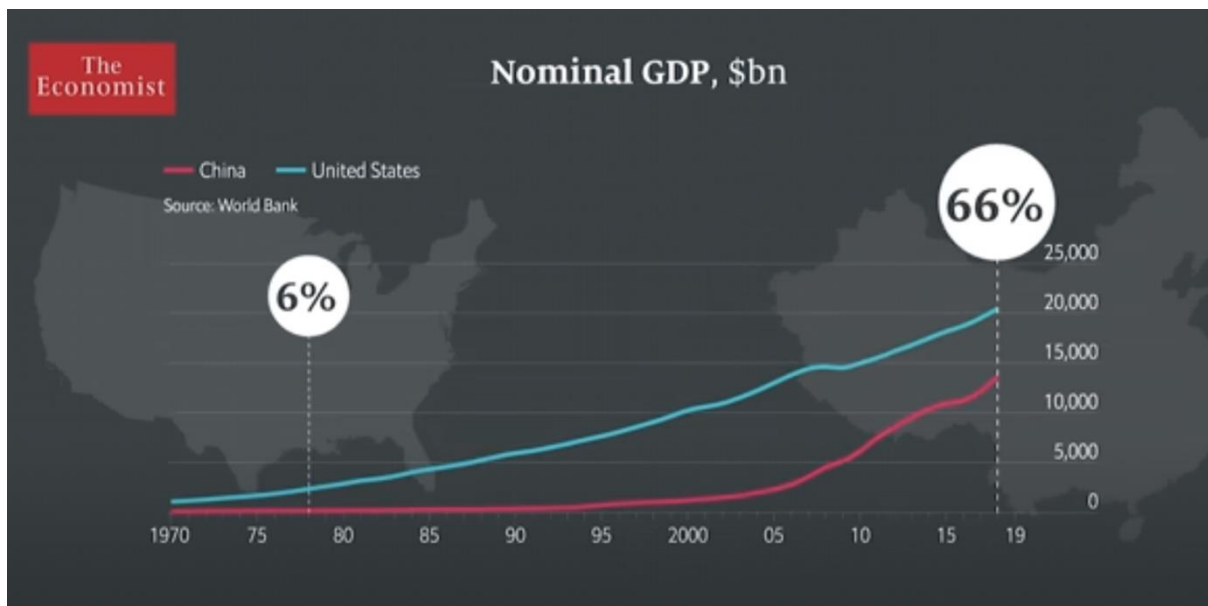


Fig. 4 Nominal GDP, \$bn

3. China's retaliation

China has announced many retaliatory policies; not only do they increase the tariff after Trump's additional percentage tariff, but they also respond with a lot of restrictions, including rare earth minerals and industrial products. In 2025, the tit-for-tat strategy caused an immediate escalation, increasing Chinese taxes on U.S. goods to 125 percent and U.S. levies on Chinese imports to 145 percent [11]. Furthermore, China has laid down a lot of policies, such as Made in China 2025 and the

information and communication industry development plan (2016-2020), to offset the severe blow in the trade war. China also used tariffs as a political weapon; it attacked President Trump's voter base. For example, China's tariffs concentrate on countries that helped Trump to win in 2016, mostly in the Great Plains. Because he is a very controversial political leader who tends to intensify the tough relationship with China in trade. Although the tariff discourages China's exports and has met most of the demands for made-in-China products. China seeks opportunities to address the declining demand; one solution is to sell exports to unaffected countries, thereby minimizing the financial damage caused by the trade wars. Furthermore, the circle of friends surrounding China has been growing in recent years. China's imports and exports with other Belt and Road nations totaled 11.29 trillion yuan, up 4.7% and making up 51.8% of all imports and exports. This is a 0.9 percentage point gain over the same period as the previous year. Exports increased by 9.6% to 3.67 trillion yuan out of this total. Imports and exports to South Korea, Japan, and the European Union all increased throughout that time [12].

4. Effect

Start from 2018, the US-China trade war has been taking a worsening toll on bilateral economic relations. This incident is long-term, widespread spread and involves many games logic and strategies, which means it creates a lot of uncertainty not only for business but also for individual investors in the world. Additionally, there is no doubt that there is a costly operation for both the countries and their industries.

4.1. Effect on China

The most direct effect in China is that its exports to the US decreased in proportion due to the increasing tax rates. And the adverse impact on the volume of exports was mainly on oilseeds, transport equipment, and electronics. Between 2017 and 2022, China's proportion of US imports decreased from 22% to 16%, returning to its 2007 level before the global financial crisis [13]. China is set to become one of the most rapidly developed countries in technology innovation, new energy products, and manufactured products. And it is gradually aware of the benefits of leading innovation capabilities and higher productivity across emerging industries. The information and communication (ICT) industry is negatively impacted by the trade war due to the higher tariffs on a proportion of manufacturing products and technological products. This particular case against the ICT industry using tariffs might not only reduce long-term disadvantages in the US but also impede the current development of the high-tech industry in China [14]. Besides, Exporters must lower their export pricing in order to address the decreasing demand. There is a delayed decline in export prices in 2019. This suggests that Chinese exporters are reducing their prices to offset the expense of US tariffs.

4.2. Effect in the US

Most of the initial attempts for the US to start the trade war, such as the ambition of "bringing manufacturing back" and "reciprocal tariffs," have not been fully reached. In contrast, business decline becomes a significant issue in the second quarter of 2025. For instance, Boston Scientific Instruments, a maker of medical devices, would lose \$200 million this year as a result of the trade war's extensive effects. Medical device tariffs will cost Johnson & Johnson \$400 million, and Raytheon Technologies may lose \$850 million in operational earnings this year before taxes [15]. Furthermore, due to the higher tax rate, the price of China's exports has been much higher in recent years. This can cause the inflation rate to increase in America. And due to the poor elasticity for industrial production in the US, as Most of their factors of production usually focus on services, Shortage may drive up the prices, and inflation will be further worsened. According to Stephen Miran, a trade war is like a "game of Chicken", and he assumes China will be the defeated side as the US has stronger political power and more alliances. They can use their military umbrella to take control of the overall trade trends. However, according to Julian Hinz, Research Director for Trade Policy at

the Kiel Institute for the World Economy, "the US is primarily harming itself by increasing trade barriers towards the global market and without access to low-cost suppliers because the advantages of the international division of labour are lost." [16]. So, if China didn't fight back in the trade, America may still face some losses due to the operational cost.

4.3. Effect on the rest of the world

There is going to be a spillover effect, which refers to the consequences of a trade war extending to other countries and causing global trade diversion. The impact and the extent are determined by the role played by other foreign countries. A simplified model can help to explain the cost and benefit for neutral nations. In Figure 5, state A exports raw materials to state B. And state C cuts back and stops buying from state B [17]. This is like when the US imposed tariffs in the First place or China set the counter tariffs afterwards. As a result of the model, state B may instead source from State D, which may offer a similar product to I. State D is more like the trade diversion beneficiaries; they can gain much profit by providing the alternative resources. Because of the reliance on State B manufacturers, upstream suppliers in State A also see a decline in orders, which directly affects exporters in State B through a decline in purchases. In this case, State A is like those highly related countries to the US or China, such as Vietnam and Mexico. They spend the Menu cost to shift the supply chain to avoid tariffs. Asean countries may be impacted the most by the trade war between these two major economic powers, the US and China. However, due to varying levels of reliance on US-China trade and the possibility of production line recalibration or trade flow redirection because of the tariffs, the effects on ASEAN may vary. According to the evaluation utilising the four factors selected, Indonesia, the Philippines, and Vietnam would have less to lose, while Singapore and Malaysia might be the most susceptible [18]. However, there are also some benefits for those bystander countries

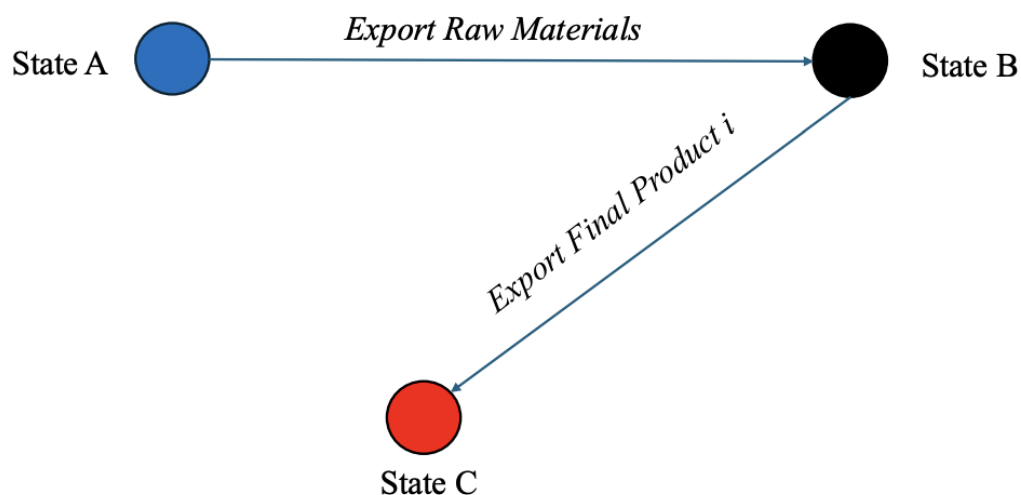


Fig. 5 Prior to the trade war

5. Conclusion

The US started to impose tariffs based on the idea of "the game of chicken", which is aligned with the political and economic objectives of Trumpism. The US needs to strain its alliances while undermining its strongest opponent-China. They blamed China for its unfair practices on national security and intellectual property, too asked for stricter rules in different international agreements. But their leader has also expressed the worries of China's shift to mercantilism after joining the WTO. China also retaliates for the sanctions to prove that the US hegemony is not unshakable. At the end, the Sino-US trade war shows that economic policy is becoming more and more subservient to strategic goals at a time of geopolitical conflict. Both governments feel that conflict is justified to

accomplish their long-term geopolitical objectives, which include upholding US supremacy and solidifying China's right to develop in multiple areas, despite the high costs involved. International trade has been permanently altered by the conflict, shifting away from the post-Cold War consensus of globalisation and towards a more politicised and fractured system characterised by rival blocs and escalating threats. Both countries want to win the best for their industry and avoid a deficit. However, in the prisoner dilemma theory, an endless tariff will only cause a huge loss for both. The spillover effect can also shift the whole trading system and relationship with third-party countries

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