

A Study on the Impact of the China-US Trade War on the Chinese Economy

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Abstract: This thesis aims to explore the multi-dimensional impact of the China-US trade war on China's economy. Under the background of globalization, the economic and trade relations between China and the United States have far-reaching global significance. Since 2018, the trade war has not only triggered tariff disputes between the two sides but also had a major impact on the global economic order. This study first analyzes the background of the trade war, including the China-US economic interdependence and the escalation of trade frictions, and elaborates on the cause and development of the trade war and its direct impact on China's economy in export trade, industrial structure, employment market, and financial market. At the same time, on this basis, it puts forward China's strategy to deal with the trade war, including expanding domestic demand, enhancing the autonomy of the industrial chain, strengthening international cooperation, and optimizing the business environment. The study found that although the trade war has brought some pressure on the Chinese economy, China has shown strong resilience and development potential through active response and deepening reform. Future studies should continue to focus on the dynamic evolution of the trade war and its impact on the global economy.

1. Introduction

1.1. Research Background and Motivation

Since 2018, the United States and China have started a war minus the shooting between the China-US trade war, which has had a certain impact on global social and economic development. At the beginning of the China-US trade war, on March 8, 2018, the United States used 232 measures to impose 25% and 10% tariffs on imported steel and aluminum products, respectively. This involves China's steel and aluminum exports of about 2.88 billion US dollars (2017), mainly affecting the ferrous metal smelting and rolling processing industry, non-ferrous metal smelting and rolling processing industry, and metal products industry.

In the second round, on June 15, 2018, the Office of the United States Trade Representative (USTR) released the revised "301" list of products subjects to 25% tariffs on China, including 1,102 products, involving a scale of about 46.3 billion US dollars based on 2017 data. Among them, the first batch consists of 818 products, involving five equipment manufacturing industries, including general equipment, electrical machinery, specialised equipment, communication electronic

equipment and instruments. This batch of goods was valued at US\$32.22 billion and took effect on 6 July 2018. The second group of 284 products with a total value of \$14.08 billion came into effect on August 23, 2018, of which 58.9% are equipment manufacturing, the rest are rubber and plastic products, metal products and other industries.

In the third round, on July 10, 2018, USTR announced a tariff list of an additional \$200 billion of imports from China, at a rate of 10%, in response to China's countermeasures. In early August, the United States announced that it would raise taxes on \$200 billion of Chinese imports to 25% from 10%. In addition, on July 20, 2018, Trump said that he was ready to expand the scope of additional tariffs on China to \$500 billion, which means that all Chinese imports will be subject to additional tariffs. The \$200 billion product list basically covers most industrial sectors and of the US \$504 billion in imports from China (2017), 98% (\$495.5 billion) were industrial imports, excluding agricultural products.

Across all industries, the most affected high-tech industries, such as some chips and other technologies, China has not fully mastered the core technology, which has led to China's serious oppression in this respect.

According to the above background, the topic of this thesis is the impact of the China-US trade war on China's economy. This thesis will conduct a study from the aspects of employment, economic development level, consumption and income status, and exchange rate, combined with previous studies to conduct a literature review, discuss the impact of China-US trade war on China's economy, and put forward feasible plans for China's future economic development.

1.2. Research Purpose and Significance

The purpose of this thesis is to deeply analyze the specific impact of the China-US trade war on China's economy. Through an analysis of the trade war, it aims to understand how it has changed China's economic landscape, as well as China's response strategy and adjustment direction in the face of external pressure. The significance of the study is reflected in the following aspects:

First of all, this study helps to fill in the existing literature on the trade war on the micro-level impact of China's economy in depth. Through systematic study, policy makers can be provided with more detailed data and analysis in order to formulate more effective responses.

Secondly, understanding the impact of the trade war on China's economy, especially the direct impact on exports, industrial structure, employment, and financial markets, will help enterprises adjust their business strategies, reduce risks, seize opportunities, and achieve sustainable development.

Thirdly, the indirect impact of the trade war on scientific and technological innovation, foreign investment policies, regional economic balance, and global value chains will help reveal China's new role in the global economy and possible challenges in the future, and provide references for China's long-term economic planning.

Finally, this study will evaluate China's strategies for coping with the trade war, such as expanding domestic demand, enhancing industrial chain autonomy, and strengthening international cooperation, to providing lessons for other countries and regions facing similar dilemmas.

In general, this study aims to comprehensively analyze the impact of the China-US trade war on China's economy, promote the in-depth understanding and response of the theoretical and practical circles, and provide theoretical support and practical guidance for the stability and development of China and even the global economy.

1.3. Research Contents

The main study content of this thesis is the impact of the China-US trade war on China's

economy. This thesis studies the level of economic development, import and export and exchange rate, consumption and income, employment and other aspects, and makes an analysis based on the data of China's National Bureau of Statistics (CNBS). This study can help people find the reasons for China's economic growth. Based on this, this thesis will put forward important policy suggestions for China's future economic development, and try to summarize some possible minor drawbacks in the process of China's economic development.

2. Literature Review

During the China-US trade war, the United States restricted China in tax and commercial investment, which was a major factor affecting China's economic development in the China-US trade war [1]. In the China-US trade war, the relatively serious economic "friction" between the United States and China is both a positive and a challenge to China [2]. In the context of such a trade war, China should find its shortcomings in time, correct and adjust its development structure and direction in time, so as to better improve the level of economic development in the future. In the China-US trade war, China has been suppressed to a certain extent, and the reason why the United States initiated the trade war is that the United States believes that its hegemonic status has been threatened, which can also be seen that China has a certain economic strength, although it has been suppressed, its economic development is still relatively rapid to a certain extent, which makes major country like the United States afraid [3]. Behind the China-US trade war, it also reflects the strengthening of China's economic foundation [4]. At the same time, the impact of currency on economic conditions cannot be ignored [5]. The China-US trade war has had a greater impact on the global value chain, but it has also prompted countries to pay more attention to trade cooperation and global economic stability. By strengthening multilateral cooperation, regional economic integration, diversified supply chains, and technological innovation, countries can adjust their responses and jointly promote the development and optimization of the global industrial chain. Based on giving full play to the advantages of various countries and exploring new cooperation opportunities, sustainable development of global value chains can be achieved [6]. As the world's largest exporter, China should not only be satisfied with the expansion of export scale in the original labour-intensive products and low-technology intensive products, but should explore the different needs of consumers and encourage export and research institutions to carry out research and development and innovation in new product categories. It cultivates more advantages of having independent intellectual property rights, well-known brands, and strong international export competitiveness, and guides these exports to broaden the breadth of export by expanding the types of export products, and avoids over-relying on low-price advantages to obtain export competitiveness. In this way, China can gradually improve the export mode of "large quantity, thin profit", obtain higher trade benefits, and be more conducive to the long-term, healthy and orderly export of "Made in China", so as to realize the transformation from "a trader of quantity" to "a trader of quality" [7]. Under the current trade status and international environment, in order to develop China's economy faster and better, on the one hand, it needs to recognize the fording trade situation, seize the opportunity, further enhance the confidence of development, take advantage of China's comparative advantages, seeking greater development space and consolidating the status of a trading power. On the other hand, China should fully estimate the complexity, severity, and uncertainty of the situation. China should face up to the problems existing in the development of foreign trade, accelerate the transformation of the development mode of foreign trade, pay more attention to optimizing the structure of import and export, and improve the quality and added value of export [8]. They adhere to the sustainable policy, while continuing to support the export of products with advantages and maintain the market share of external demand, and actively increase the import of products without

advantages, better meet the domestic demand, promote the growth of domestic demand, strive to solve the medium and long term structural problems affecting the development of foreign trade, promoting the process of trading power [9]. By reading the literature, the author has a clearer understanding of the development trend and prospects of the global economy. However, it is also necessary to pay close attention to the changes in the global economic situation and make corresponding economic decisions and trading strategy adjustments according to the recommendations and prospects of the report [10].

3. Analysis of China's Economic Development Indicators

3.1. Economic Development Level

According to the data released by the CNBS, China's gross national income has shown a steady upward trend since 2006, and its gross domestic product has also skyrocketing. The changing trend of China's GDP since 2006 is shown in Figure 1.

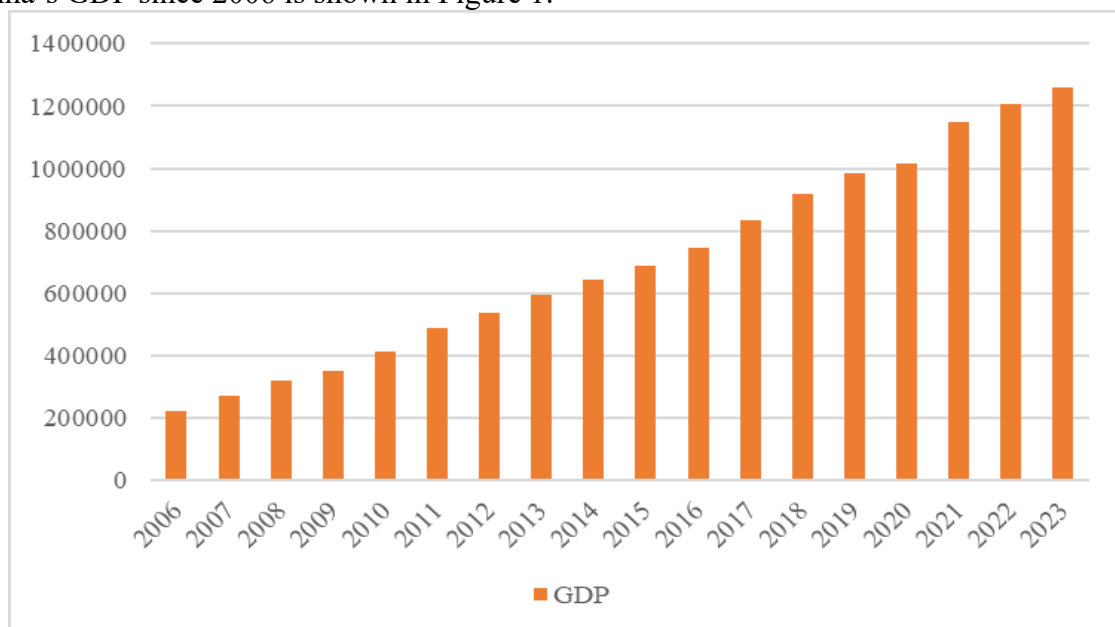


Figure 1: 2006-2023 China's GDP Changing Trend

3.2. Added Value of Sector

The value-added of the primary industry (planting, forestry, animal husbandry, etc.) basically does not change, while the value-added of the secondary industry (processing and manufacturing, etc.) and the value-added of the tertiary industry (transportation, communication, etc.) show an obvious upward trend.

In the figure 2, from the perspective of economic development, in the early stage, Chinese enterprises should not timely adjust the development structure and direction, and master the core technology. As a result, China's GDP will be affected in the early stage of the China-US trade war, but after adjustment, China's economic situation has also turned into a steady upward trend.



Figure 2: 2018-2022 Proportion of the Added Value of Three Industries in GDP (Unit: %)

3.3. Import and Export

For China and the United States, this war minus the shooting is cruel. No matter whether tariff barriers or non-tariff barriers are increased, the import and export of China and the United States will be impacted to a certain extent. And if China takes retaliatory measures, the decline in both exports and imports would be even steeper. Among them, many small and medium-sized enterprises have been severely hit by the economic crisis, and even face the situation of bankruptcy; However, some small and medium-sized enterprises have gained the opportunity to grow, so as to change their development mode or direction in time to cope with the crisis.

3.4. Exchange Rate

From the perspective of the exchange rate, the trade war has triggered tensions between the two countries and raised trade barriers, leading to a hit to market confidence. Investors see increased uncertainty in China's economic development, putting downward pressure on the RMB. In addition, the trade war has led to a more complex international payment settlement environment between the two currencies, further increasing exchange rate instability. Secondly, the impact of the US trade war on China's exchange rate is also reflected in the depreciation of the RMB. As a major exporter, China will take a direct hit when the United States imposes tariffs. The uncertainty caused by the trade war has led to capital outflows and increased market expectations of a devaluation of the RMB. Such expectations triggered a sell-off in the currency market, further driving down the value of the RMB. The exchange rate depreciation has had mixed effects on the Chinese economy, including inflationary pressures and debt problems.

3.5. Employment

China's population itself is very large, and since the reform and opening up, people's living standards and quality of life have been improved, so the population is also increasing. Under such a premise, there will be some shortages in resource allocation. In addition, in the general environment

of the China-US trade war, many companies are facing bankruptcy and closure, and there are even fewer jobs available for public interviews in the society, which reflects that one drawback of the China-US trade war affects employment.

For China, the biggest impact has been on the high-tech industry. The reason is also very simple. From the perspective of industrial development time, compared with the United States, China lacks advantages in high-tech industries. Due to the early development of science and technology in the United States, China's grasp of the core technology of high-tech industries is not as strong as that of the United States. This also indirectly leads to many small and medium-sized enterprises engaged in scientific research and other technical aspects, facing bankruptcy one after another. Monopolies in some cutting-edge technologies lead firms to such outcomes.

At present, China has a shortage of people with cutting-edge technology. In the future, China should pay attention to the cultivation of talents and the mastery of core technologies. In this regard, because the US has been developing science and technology for a longer time than China, China was at a disadvantage in the early stage of the trade war in terms of mastering cutting-edge technology. However, from 2018 to 2022, through a series of improvements and advances, China gradually caught up with the US in this respect.

3.6. Consumption and Income

The impact of the China-US trade war on consumer spending cannot be ignored. The trends of per capita consumption expenditure of residents and per capita GDP in China are shown in Figures 3 and 4. In terms of per capita consumption expenditure of residents, the degree of fluctuation is large, especially in 2020 and 2022. However, for per capita GDP, although there are fluctuations, it shows an overall upward trend.

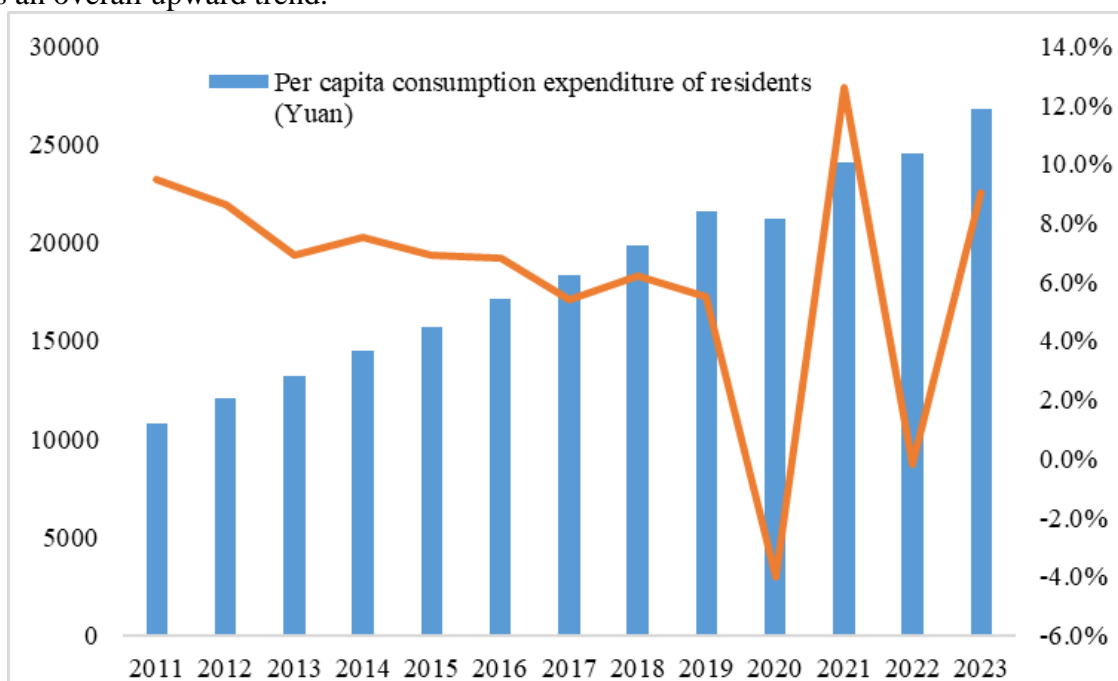


Figure 3: Per Capita Consumption Expenditure of Residents (unit: Yuan)

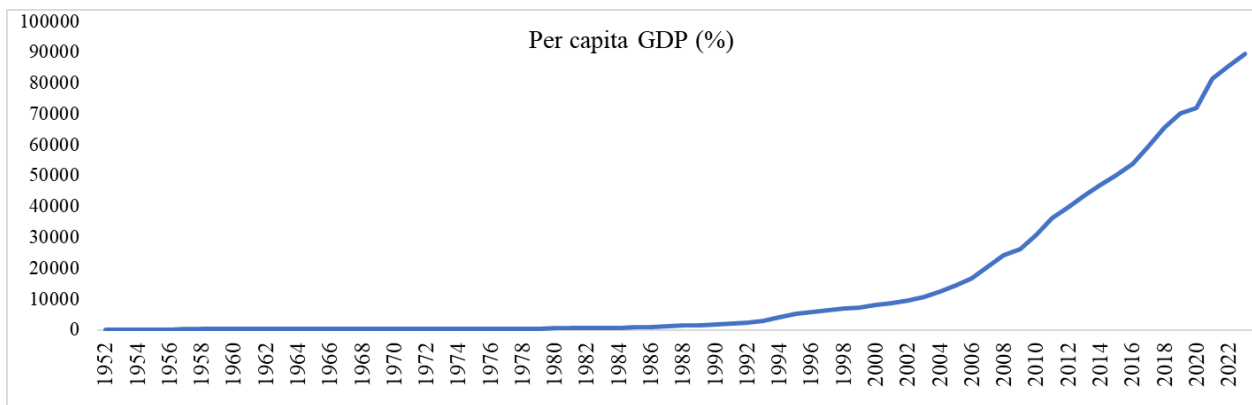


Figure 4: Per Capita GDP

4. China's Strategies and Measures for Dealing with the Trade War

In terms of system, China is a social system while the United States is a capitalist system. In terms of the political system, the United States and China have become an opposing situation. So the social foundation also determines the economic development of the country to a certain extent. In terms of the development status of some important fields, the development status of the United States is relatively higher than that of China, which leads to the different development situations of the two countries under the situation of the China-US trade war. China is dealing with the effects of the trade war in several ways.

4.1. Expanding Domestic Demand and Promoting Consumption

Under the background of the China-US trade war, China is facing the challenge of shrinking external market demand, and expanding domestic demand has become an important strategy to stabilize economic growth. The Chinese government actively promotes the transformation and upgrading of consumption to improve the prosperity of the domestic market by improving the consumption capacity of residents. First of all, a series of measures have been taken at the policy level, such as tax and fee cuts, to increase residents' disposable income so as to improve consumers' purchasing power. For example, the implementation of personal income tax reform has reduced the tax burden on middle-low income communities and encouraged consumption expenditures.

Secondly, the government promotes consumption upgrading and new consumption models, such as e-commerce and sharing economy, to meet the people's growing diversified consumption needs. The popularity of e-commerce platforms makes it easier for consumers to buy domestic and foreign goods, thus stimulating consumption. At the same time, the government is also encouraging green consumption and promoting energy-saving products to promote sustainable development.

Moreover, investment in infrastructure and public services is also an important means of expanding domestic demand. The government has increased investment in education, medical care, housing, and other areas of people's livelihood to improve public services and enhance people's consumer confidence. For example, the government will promote the healthy development of the housing rental market, solve the housing problem in big cities, reduce the pressure on home buyers, releasing more consumption potential.

Finally, by cultivating new consumption hotspots, such as cultural tourism, health and pension, and sports and entertainment industries, it can guide the transformation of consumption from material consumption to service consumption. The development of these emerging industries can not only create new employment opportunities but also provide new impetus for economic growth

and realize the optimization and upgrading of economic structure.

Through these strategies, China is seeking to make its economy more resilient to external shocks by driving growth with domestic demand and reducing its reliance on external markets amid the trade war. At the same time, this has laid a solid foundation for the long-term healthy development of the Chinese economy.

4.2. Enhancing the Autonomy of Industrial Chains

Under the background of the China-US trade war, improving the autonomy of the industrial chain has become one of the important strategies for China to deal with trade conflicts. This strategy aims to reduce over-reliance on external markets and enhance the self-supply and innovation of domestic industries. By strengthening independent research and development, technological innovation and high-end manufacturing, China is committed to building a more complete and independent industrial chain.

Firstly, the Chinese government actively promotes scientific and technological innovation, increases investment in scientific and technological research and development, and encourages enterprises to carry out technological transformation and upgrading. For example, various scientific and technological innovation funds have been set up to provide R&D financial support for enterprises, while optimizing the approval process of scientific research projects to improve innovation efficiency. In addition, enterprises are encouraged to increase R&D investment through tax incentives and other policies to enhance the independent R&D capability of core technologies.

Secondly, China is gradually optimizing its industrial structure and promoting the development of high-end manufacturing and strategic emerging industries. For example, new energy vehicles, artificial intelligence, biotechnology and other fields have received strong policy support. By fostering these high value-added industries, China can reduce its dependence on traditional labor-intensive industries and enhance its position in the global value chain.

Thirdly, China is strengthening the collaboration and integration within the industrial chain, promoting the cooperation between upstream and downstream enterprises, and forming a closer industrial chain network. In this way, supply chain risks can be reduced and the industry's ability to resist shocks can be improved. At the same time, through the establishment and improvement of public service platforms, technology research and development, information sharing and other services, further promoting the collaborative innovation of the industrial chain is needed.

Finally, China is also actively attracting foreign investment, especially in the high-tech sector, to enhance the integrity and competitiveness of the local industrial chain. While protecting intellectual property rights, it is necessary to open up the market, provide a level playing field for foreign-funded enterprises, and encourage domestic and foreign enterprises to achieve win-win results in technology research and development and market expansion.

In general, enhancing the autonomy of the industrial chain is a key measure for China to seek long-term development amid the trade war. It will help China cope with changes in the international trade environment, enhance economic resilience, and maintain competitive advantages in the global economy.

4.3. Strengthening International Cooperation and Market Diversification

In the context of globalization and facing the challenges brought by the China-US trade war, China has recognized the importance of strengthening international cooperation and market diversification. On the one hand, China actively seeks trade cooperation with other countries and regions to reduce its dependence on the US market. For example, by signing the Regional Comprehensive Economic Partnership (RCEP) and advancing the Belt and Road Initiative, China

has strengthened economic ties with Asia, Europe, Africa, and other regions, expanded export markets, and reduced risks caused by fluctuations in the single market.

4.4. Reform and Opening Up and Business Environment Optimization

In the face of the pressure brought by the China-US trade war, China has further recognized the importance of reform and opening up, and in particular has taken a series of positive measures to optimize the business environment. First of all, the Chinese government has deepened the reform of “streamlining administration and delegating power, improving regulation, and upgrading services”, simplified the administrative examination and approval process, lowered the threshold for market access, and encouraged more private enterprises and foreign-funded enterprises to participate in market competition. Secondly, China has actively promoted intellectual property protection and strengthened the construction of a legal system to provide a strong guarantee for corporate innovation. By strengthening IPR enforcement, increasing the cost of infringement, and creating a good atmosphere of respecting and protecting IPR, it can attract more investment in high-tech industries. Thirdly, China has accelerated the reform and opening up of the financial sector to enhance the ability of the financial sector to serve the real economy. For example, China should promote the internationalization of RMB, relax the limit on foreign ownership in the financial sector, and encourage foreign financial institutions to set up branches in China, enhancing the vitality and competitiveness of the market. In addition, China is committed to improving public services and the social security system to provide a stable social environment for enterprises. By improving the social security system, the burden of enterprises can be reduced, while the quality of labor force can be improved to create favorable conditions for the development of enterprises.

In general, facing the pressure of the trade war, China has not only enhanced its own economic resilience, but also enhanced its competitiveness in the global economy by deepening reform and opening-up, and optimizing the business environment. These measures not only help mitigate the negative impact of the trade war, but also lay a solid foundation for China’s long-term economic development

5. Conclusion

Through an in-depth discussion of the China-US trade war, this study draws the following main findings and conclusions: Firstly, the trade war has had a significant direct impact on China’s economy. Export trade has been hit, and some industries and enterprises are facing reduced orders and declining profits. The adjustment of the industrial structure accelerated under the pressure, and enterprises with high added value and technological innovation showed greater resilience. The employment market has been affected to some extent but is generally stable thanks to the government’s employment first policy. Financial market volatility has increased, but the Chinese government’s macro-control measures have effectively prevented systemic risks. Secondly, the indirect impact of the trade war cannot be ignored. Scientific and technological innovation has become key to coping with the trade war, and China has increased investment in scientific research to promote industrial upgrading. The adjustment of foreign investment policy and the welcoming attitude towards foreign investment have enhanced China’s attractiveness to the outside world. The imbalance of regional economic development has been highlighted by the trade war, but it has also prompted policy makers to pay more attention to coordinated regional development. The changing position in the global value chain encourages China to accelerate the construction of the new development pattern of domestic and international dual circulation. Finally, China’s approach to the trade war shows its long-term vision and strategic focus. Expanding domestic demand and boosting consumption have become new drivers of economic growth. The autonomy of the industrial chain

has been enhanced and the dependence on the external market has been reduced; Strengthening international cooperation, especially with countries along the Belt and Road, has diversified the market; The deepening of reform and opening up and the optimization of the business environment have further enhanced China's economic competitiveness. In general, although the China-US trade war has brought challenges to China's economy, it has also given rise to the impetus for change and innovation. China has shown strong adaptability and development potential in the process of coping. In the future, it should continue to deepen reform and strengthen innovation-driven development to achieve higher-quality development.

Based on the current study, future studies on the impact of the China-US trade war on China's economy can be improved from the aspects of long-term impact, dynamic process and effect of policy adjustment, and development of selected industries.

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