

Differential Economic Impacts of Chinese and American Trade Policies on Developed Versus Developing Nations

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Abstract. The trade conflict between the United States and China, the two largest economies in the world, has considerable implications for global economic stability and growth. This topic has been selected due to the necessity of understanding how these trade disputes impact other countries, particularly those heavily dependent on exporting goods to these major economies. The analysis aims to investigate the varied effects of the trade war on both industrialized and developing nations. An analysis is conducted to examine the differential effects of the trade war on industrialized and developing nations by studying the changes in GDP growth rates, unemployment rates, and balance of trade trends. This study examines the distinct economic effects of the China-US trade war on Germany, Canada, and Mexico, which serve as representative examples of developed and developing nations. The results emphasize the significance of customized policy measures to tackle the distinct difficulties and prospects encountered by various economies. Developed countries should prioritize efforts to reduce sluggish economic development and address unemployment in specific sectors. On the other hand, developing nations should take advantage of trade diversion benefits and strengthen their economic resilience. This study enhances the awareness of global trade dynamics and offers vital perspectives for policymakers seeking to negotiate the intricacies of international trade wars.

Keywords: China-United States trade war; Developed countries; Developing countries; GDP growth; Unemployment.

1. Introduction

In recent decades, the trading partnership between the United States and China has significantly expanded. China has emerged as one of the primary destinations for U.S. exports, while also being the leading country from which the U.S. imports goods and services. The significant expansion in commerce was propelled by China's economic reforms during the 1970s and 1980s, along with its accession to the WTO in 2001, which reduced trade barriers [1]. The trading relationship between the two nations provides substantial advantages for both parties. American consumers have experienced lower prices and improved spending power as a result of growing commerce with China. According to one study, this has translated to an estimated yearly rise of \$1,500 per household from 2000-2007 [1]. China has become an essential export market for U.S. enterprises, contributing to the employment of more than 1 million Americans.

Additionally, it provides U.S. firms with the opportunity to benefit from access to China's extensive customer population. Trade with other countries has played a crucial role in China's rapid economic expansion, resulting in the upliftment of hundreds of millions of people from poverty. However, the trade relationship has also created several issues. The substantial surge in imports from China has contributed to the decline in manufacturing employment in the United States. Research suggests that the impact of this phenomenon, known as the "China Shock," is responsible for as much as 55% of the decrease in U.S. manufacturing employment between 2000 and 2007 [1]. China's utilization of subsidies, state-owned firms, and alleged "forced technology transfer" policies has raised worries among U.S. officials who say that these practices disrupt the global trading system. China's currency policies, namely its previous strategy of deliberately undervaluing the yuan, have also caused significant tension. As a reaction, the United States has adopted a more forceful position by imposing

tariffs, intensifying the inspection of investments, and enacting export controls and other measures to handle its trade disputes with China [2]. The US-China trade war, which has resulted in harsh tariffs and retaliatory actions, has severely affected supply chains and international trade. This has had substantial adverse effects not just on the United States and China, but also on other economies worldwide that are intricately interconnected in global trade and value networks.

1.1. The motivation

It is crucial to examine the effects of the trade policies of the world's two largest economies on global economic outcomes, particularly for developing nations [1]. This comparative research aims to distinguish between the economic effects of US and Chinese trade policies on both developed and developing countries.

2. Literature Review

A deepening trade dispute between China and America is impacting businesses in both economies. The divergent responses across sectors clearly indicate that heightened uncertainty stemming from trade tensions has significantly impacted investor sentiment and confidence. The more pronounced reactions in information technology, industrials, and energy sectors suggest these areas are more sensitive to the uncertainty shock generated by the intensifying trade disputes. This uneven sectoral impact highlights the need for policymakers and businesses to carefully assess and manage the differential effects of trade tensions on various industries within the economy [3]. Targeted measures may be required to support the sectors most vulnerable to the uncertainty generated by trade policy changes.

The administration's overall vision for international trade is to ensure that it serves the interests of American workers, communities, and the broader national economic and security priorities. By pursuing a worker-centric approach, investing in critical infrastructure and clean energy, and strengthening environmental and labor standards in trade deals, the Biden-Harris team aims to rebuild the American middle class, create new jobs, and enhance the country's global competitiveness. The Biden-Harris administration's strategy for U.S. trade and its strategic vision for reorienting trade policies with China prioritizes safeguarding American interests and advocating for equitable trade practices. This includes conducting a thorough evaluation of the U.S.-China trade relationship and implementing a fresh approach to ensure fair competition for American workers, businesses, and producers. [3].

In addition, the administration is implementing a contemporary industrial and innovation strategy to allocate resources towards economic prowess and technological superiority. This strategy involves merging foreign policy with domestic policy and addressing interconnected issues that transcend traditional boundaries, such as supply chains, fundamental technologies, and the shift towards renewable energy [4]. This strategy is backed by ambitious investments in national strength, the integration of foreign and domestic policy, a focus on issues that transcend traditional boundaries, and the further development of strategic and economic partnerships worldwide [5]. To talk about the effect of the trade war on China's economy, domestic sales within China remained relatively stable despite increases in U.S. tariffs. The higher export prices resulting from U.S. tariff hikes did not affect the pricing strategies of Chinese exporting companies, corroborating earlier studies that suggested U.S. consumers bore the full cost of these increases [4].

Moreover, the narrow profit margins and the limited flexibility to shift their goods to other international markets or boost domestic sales prevented Chinese exporters from lowering prices or redirecting their sales to offset the impact of the U.S. tariff increases (Figure 1 to Figure 3).

However, many studies lack a full study. They propose that although several studies have investigated particular facets of the China-US trade war, such as its economic consequences, there is a dearth of comprehensive evaluations that take into account the complex and diverse character of the dispute (Table 1).

3. Methodology

Table 1. GDP Growth Rates of China, United States, Germany Canada and Mexico from 2019 to 2024 [6]

	China	United States	Germany	Canada	Mexico
2019 Q1	1.6%	2.2%	0.7%	0.2%	0.1%
2019 Q2	1.5%	3.4%	0.0%	1.1%	-0.2%
2019 Q3	1.5%	4.6%	0.0%	0.3%	-0.1%
2019 Q4	1.2%	2.6%	0.3%	0.3%	-0.8%
2020 Q1	-10.4%	-5.3%	-1.8%	-1.9%	-1.2%
2020 Q2	11.5%	-28.0%	-9.2%	-11.0%	-19.1%
2020 Q3	3.5%	34.8%	8.9%	9.1%	15.5%
2020 Q4	2.5%	4.2%	0.8%	1.9%	4.3%
2021 Q1	0.5%	5.2%	-1.3%	1.4%	0.4%
2021 Q2	1.3%	6.2%	2.2%	-0.3%	0.6%
2021 Q3	0.7%	3.3%	0.7%	1.7%	-0.3%
2021 Q4	1.6%	7.0%	0.0%	1.6%	1.2%
2022 Q1	0.8%	-2.0%	1.0%	1.0%	1.6%
2022 Q2	-2.3%	-0.6%	-0.1%	0.9%	0.8%
2022 Q3	3.7%	2.7%	0.4%	0.5%	1.1%
2022 Q4	0.8%	2.6%	-0.4%	-0.2%	1.0%
2023 Q1	2.3%	2.2%	0.3%	0.6%	0.5%
2023 Q2	0.5%	2.1%	-0.1%	0.2%	0.8%
2023 Q3	1.5%	4.9%	0.1%	-0.1%	1.1%
2023 Q4	1.0%	3.4%	-0.5%	0.2%	0.1%

Source: tradingeconomics.com

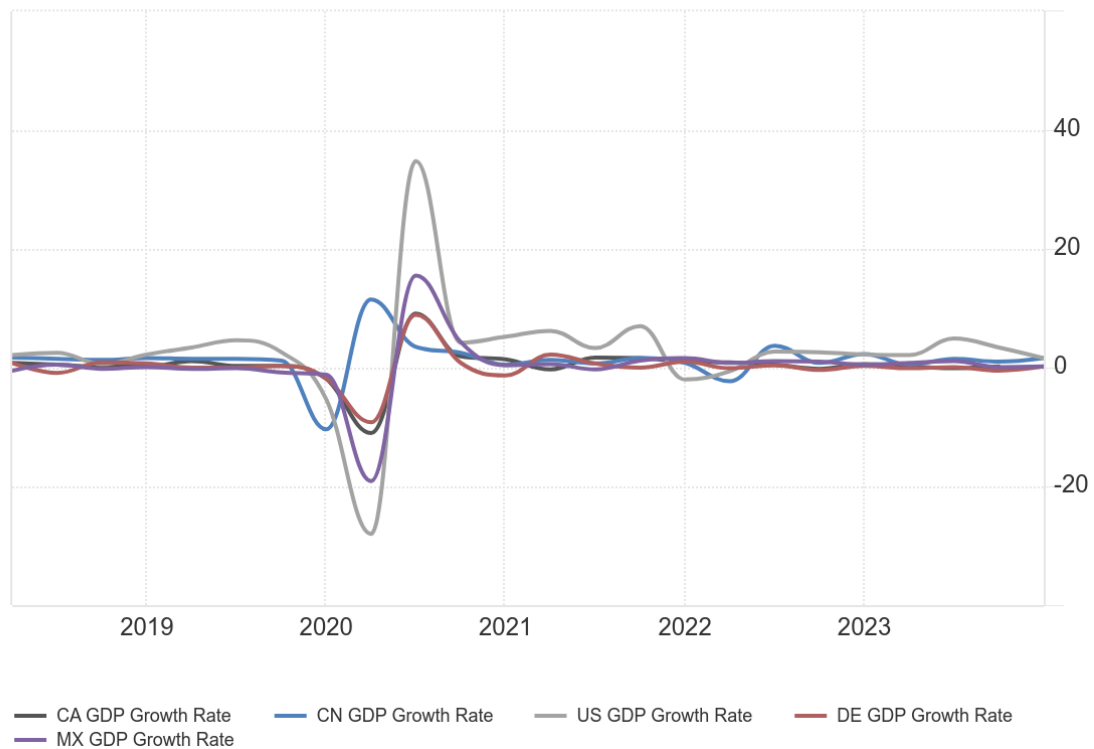


Figure 1. GDP Growth Rates Trend of China, United States, Germany, Canada, and Mexico from 2019 to 2023 [6]

Source: tradingeconomics.com

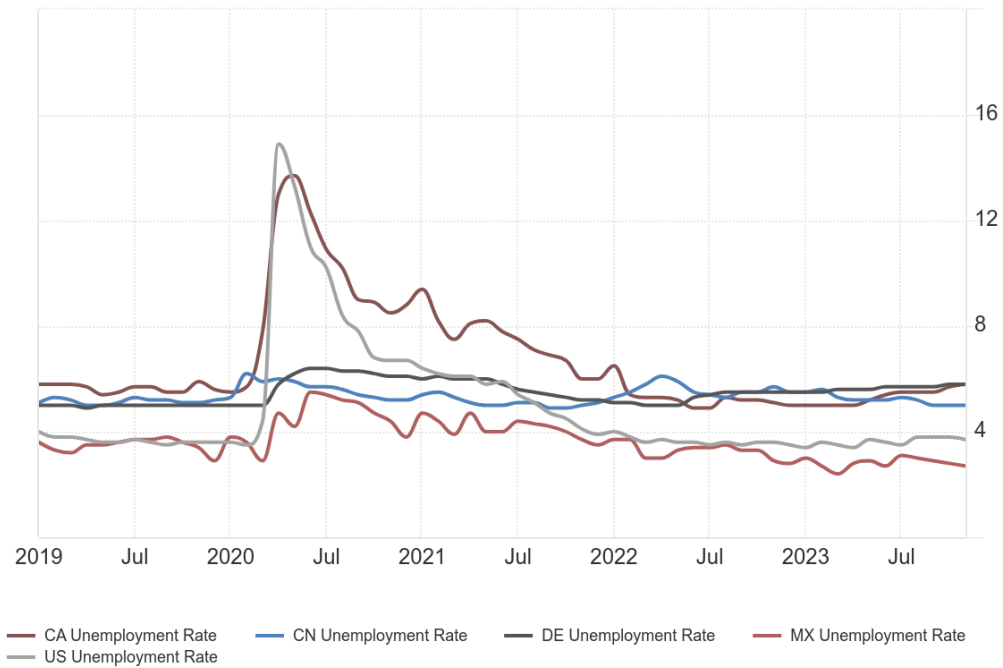


Figure 2. Unemployment Rates Trend of China, United States, Germany, Canada and Mexico from 2019 to 2023 [7]

Source: tradingeconomics.com

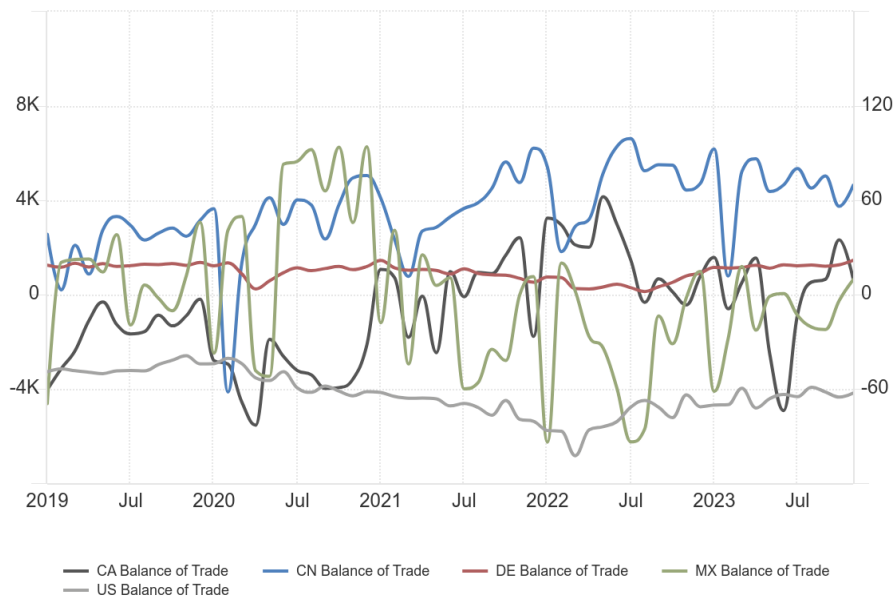


Figure 3. Balance of Trade Trend of China, United States, Germany, Canada and Mexico from 2019 to 2023 [8]

4. Analysis

4.1. Impact on Developed Countries

Germany's GDP growth is impacted indirectly by the trade war due to its reliance on an export-driven economy. Germany, being a significant exporter of machinery, vehicles, and chemicals, has a strong presence in global supply chains. The tariffs implemented by the United States and China have the potential to diminish the demand for German exports in these markets, resulting in a deceleration of economic growth [9]. Furthermore, disruptions in the supply chain and rising manufacturing costs

have the potential to reduce industrial output. Germany's gross domestic product (GDP) growth has exhibited indications of deceleration throughout the height of the trade war, as per numerous economic analyses. As shown in Table 1, during the period of increased trade tensions in 2019, the German economy, which previously had an annual growth rate of approximately 1.5%, saw a decrease in growth rates to around 0.6-0.8%.

Germany's trade balance may be adversely impacted when exports to China and the US decrease owing to tariffs, while imports may not adapt as rapidly. A decrease in exports might result in a more limited trade surplus or even a trade deficit in certain industries. Amidst the trade war, Germany experienced a reduction in its trade surplus with both the United States and China. As shown in Figure 3, exports to China experienced a decline of around 4.5% in 2019, which had an impact on the total trade balance.

Canada is closely linked to the US economy, and the trade war creates indirect effects on Canadian GDP through trade and investment channels. Reduced US-China trade can lower demand for Canadian intermediate goods exported to the US, and economic uncertainty can slow down investment.

The occurrence of economic downturns in both the United States and China might result in a decrease in the demand for Canadian exports, which in turn can potentially result in job cuts within the export industries [10]. Industries such as natural resources, industry, and agriculture may downsize their workforce as a result of reduced demand and increased production costs. Canada had marginal variations in its unemployment rate, as shown in Figure 2, with a tiny increase from 5.8% in 2018 to approximately 5.9-6.0% in 2019. This suggests a mild influence on the job market, especially in areas largely dependent on exports.

Canada's trade balance may be impacted by the trade war due to its significant commercial relationships with the United States and China. Although there may be some advantages in terms of trade diversion, the overall volume of trade can decrease, resulting in a detrimental effect on the trade balance [10]. Canada had a little increase in its trade imbalance during the trade war. In 2019, the trade deficit with China grew since exports to China declined by approximately 16.2% as referenced in Figure 3. Additionally, the trade surplus with the US decreased due to reduced demand for Canadian commodities.

4.2. Impact on Developing Countries

Mexico, as an emerging nation with robust economic connections to both the United States and international markets, has encountered both obstacles and prospects due to the trade conflict between the US and China.

Although specific sectors have experienced gains from trade diversion, the overall economic growth has been low as a result of concerns in the global economy. Policy changes also have an impact on the Mexican economy, along with other internal difficulties. It is shown in Figure 1 and Table 1 that in 2018, Mexico saw a GDP growth rate of approximately 2.1%. However, in 2019, this growth rate significantly decreased to roughly 0.1%. This decline can be attributed, in part, to uncertainty in global trade and local economic policy. Although there were some advantages resulting from trade diversion, the general economic conditions remained difficult [11].

To take advantage of favorable circumstances, numerous American and global corporations have augmented their investments in Mexican manufacturing plants, specifically in the automotive, electronics, and aerospace industries. Conversely, tariffs can also escalate production expenses and lead to delays.

5. Conclusion

Based on the analysis provided above, for developed countries, the trade dispute has had a negative effect on American manufacturing and sectors dependent on Chinese resources, resulting in

employment reductions and increased consumer costs. In the long run, the trade war is compelling US corporations to decrease their dependence on intricate global supply networks and contemplate bringing production back to their home country. The EU has been indirectly impacted by the trade war through the disruption of global trade and value networks. For developing countries, it's likely to seek to diversify trade partners beyond the US and China and promote the growth of domestic industries to reduce economic vulnerabilities.

The insights acquired from this research can provide valuable guidance for making more effective policy choices, enabling countries to effectively manage the uncertainties arising from global trade wars. Essential measures for developed nations include implementing policies that aim to diversify export markets, provide help to damaged industries, and strengthen supply chain resilience. Developing nations must prioritize attracting investment, increasing trade partnerships, and bolstering domestic sectors in order to achieve sustained economic growth.

Additional investigation is necessary to analyze the long-lasting effects of the China-US trade war on global economic stability and growth. An in-depth analysis of the changing trade connections and economic policies in light of ongoing trade tensions will yield a more profound comprehension of their ramifications. Furthermore, analyzing the function of developing technologies and digital trade in reducing the effects of trade wars could provide inventive strategies for improving economic resilience.

Furthermore, doing comparative studies that encompass a wider array of countries, particularly developing markets and smaller economies, can offer a more all-encompassing perspective on the dynamics of global commerce. Gaining a comprehensive understanding of how global supply chains are interconnected and the influence of regional trade agreements on economic results will be essential for formulating effective trade policies in the future.

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