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The Impact of the U.S.-China Tariff War on International Trade

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ABSTRACT

This study aims to analyze the trade flows (imports, exports, and re-exports) of the world's two largest economies, namely China and the United States, during the period 2020 to 2023. Trading data is measured in USD units and includes three main types of trading flows. The visualization results show that China consistently maintains a trade surplus, with the value of exports always exceeding imports every year. In contrast, the United States shows a trade deficit trend, with the value of imports significantly higher than exports and re-exports. In addition, the role of re-exports in the trade structure of the United States showed a significant contribution, although not enough to balance the deficit. These findings provide important insights for global economic analysis and international trade policy, especially in the context of the dynamics of economic relations between the two superpowers.

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Introduction

International trade plays a central role in global economic growth. Countries with substantial export and import capacities tend to exert dominant influence over global market dynamics, with China and the United States being two prominent examples [1],[2]. Over the

past two decades, these two nations have dominated global trade volumes and shaped the structure of international supply chains [3],[4].

The trade relationship between China and the United States has experienced significant fluctuations due to protectionist policies, trade wars, and global disruptions caused by the COVID-19 pandemic [5],[6]. The period from 2020 to 2023 represents a critical juncture for understanding the new direction of economic relations between the two countries. During this time, the United States recorded a sustained increase in trade deficits, while China continued to maintain a high trade surplus [7],[8].

Monitoring trade flows—particularly exports, imports, and re-exports—is essential for identifying trends and potential risks to economic stability. Data visualization serves as an effective tool for systematically and informatively analyzing these dynamics [9],[10]. Drawing on trade data from 2020 to 2023, this study aims to illustrate the trade trends of each country and analyze the structural imbalances that have emerged.



Fig. 1. Import and export between China and UAS (Source: https://data.un.org/data.aspx?d=ComTrade&f=_l1Code%3a1)

This study is not only relevant in the context of macroeconomic analysis but also contributes valuable insights for policymakers, industry practitioners, and academics in understanding the shifting dynamics of global economic power in the post-pandemic era and amid ongoing geopolitical tensions [2],[4].

Discussion

A. Global Impact and Tariff Countervailing Strategy

Publications by Khaldun [11] highlight how U.S. tariff policies on 1,300 Chinese products triggered retaliatory measures from Beijing, disrupting global trade stability. In response, China imposed tariffs on U.S. agricultural and industrial goods, resulting in new trade deficits and heightened diplomatic tensions. These reciprocal tariff policies can be theoretically analyzed through the lens of David Ricardo's theory of comparative advantage, which posits

that countries benefit from specializing in the production of goods with the lowest opportunity costs and trading them in the international market [12]. However, the imposition of tariffs undermines this principle by reducing trade efficiency and distorting prices.

In a modern context, Porter's theory of competitive advantage [13] asserts that a country's trade strategy is influenced not only by production costs but also by industrial structure, firm strategies, and domestic demand conditions. U.S. tariffs on Chinese goods can be seen as a protectionist attempt to preserve competitive advantage in strategic sectors such as technology, manufacturing, and automotive. In retaliation, China targeted politically and economically sensitive U.S. commodities—particularly agricultural products—as a strategy to apply domestic political pressure on the U.S. administration [14].

According to the Heckscher–Ohlin model, differences in factor endowments—capital and labor—drive international trade. The U.S., being capital-abundant, and China, being labor-abundant, naturally complement each other in a free trade system [15]. However, the imposition of tariffs disrupts the efficient allocation of resources, thereby reducing the mutual gains from trade. A study by Amiti et al. [16] found that U.S. tariffs on Chinese imports not only increased domestic prices but also reduced consumer surplus and overall welfare.

Moreover, the tariff conflict has contributed to a restructuring of global supply chains, as explained by Global Value Chain (GVC) theory. Multinational corporations have begun relocating production to third countries such as Vietnam and Mexico to circumvent high tariffs [17],[18]. This demonstrates that protectionist policies exert not only bilateral but also systemic effects on global production patterns.

Thus, the U.S.–China trade conflict involves not only practical economic implications but also challenges the fundamental assumptions of international trade theories that underpin global policy frameworks. Its impact extends to weakening the multilateral trading system and catalyzing the emergence of new trade blocs as mitigation strategies [4],[19].

B. Implications for Third Countries

A study by Setianingtiyas [20] revealed that U.S. tariff policies had a direct impact on Indonesia's aluminum and steel exports to the United States. This highlights how non-party countries can nonetheless be affected by global trade tensions. As a developing country engaged in international supply chains, Indonesia is among the nations experiencing spillover effects from the U.S.–China trade war. Although not directly involved in the conflict, Indonesia's role as a supplier of raw materials and semi-finished products makes it vulnerable to shifts in global trade flows [21].

Theoretically, this phenomenon aligns with Dependency Theory, which emphasizes the subordinate position of developing countries in the global economic system, where they remain dependent on decisions made by core (developed) nations [22]. In this context,

protectionist policies enacted by advanced economies such as the U.S. disrupt global demand, thereby suppressing exports from countries like Indonesia. For instance, the imposition of tariffs on Chinese goods initially encouraged U.S. firms to seek alternative suppliers, including Indonesia, which could have boosted export volumes. However, the implementation of strict standards and new tariffs on strategic commodities such as steel, plywood, and electronics created new barriers that ultimately disadvantaged Indonesian exporters [23].

On the other hand, the conflict presents opportunities for Indonesia to fill market gaps left by China in certain sectors. Researches show an increase in Indonesian exports to the U.S. in several textile and furniture product categories following the imposition of tariffs on Chinese goods [24],[25]. This corresponds with the concept of intra-industry trade theory, which posits that countries can benefit through product differentiation and improved production efficiency within the same sector [26].

Nonetheless, Indonesia's ability to seize these opportunities remains limited due to weak industrial competitiveness and reliance on imported raw materials. An analysis by LPEM FEB UI [27] found that although there is potential for investment diversion to ASEAN countries due to the trade war, Indonesia continues to lag behind Vietnam and Thailand in terms of realized Foreign Direct Investment (FDI), both of which have adopted more aggressive investment incentive strategies. This reflects the need for a comprehensive national response to global conflicts—one that includes logistics reform, industrial productivity enhancement, and adaptive trade diplomacy.

Thus, the U.S.–China trade conflict has generated both challenges and opportunities for third-party countries like Indonesia. Its implications extend beyond the export sector, influencing national economic resilience, trade balance stability, and long-term competitiveness in the global market.

C. Negotiations and Interim Resolutions

Parbo [28] highlighted that the negotiation process between the United States and China resulted in a Phase One agreement in 2020. This agreement was temporary in nature and failed to resolve the root causes of the tariff disputes between the two nations. Although initially expected to ease trade tensions, its implementation and effectiveness remain subject to ongoing debate.

By 2025, trade tensions between the U.S. and China have resurged. In April 2025, President Donald Trump announced a significant tariff hike on Chinese products—up to 145%—marking the highest level in over a century. This was part of a broader policy initiative dubbed "Liberation Day." In retaliation, China imposed counter-tariffs of 125% on U.S. goods. These developments signal a new escalation in the long-standing trade war [29].

In January 2025, the United States Trade Representative (USTR) announced plans to review China's compliance with the Phase One agreement commitments. However, there is currently no indication that China has fully met its obligations. In contrast, the Chinese government has reiterated its opposition to any bilateral agreement between the U.S. and other countries that undermines China's interests, and has declared its readiness to respond decisively to actions perceived as harmful [30],[31].

Despite statements by President Trump suggesting that a new trade deal with China could be reached within weeks, analysts remain skeptical. They argue that China holds a strong bargaining position, especially given its dominance in key sectors such as electric vehicles and rare earth minerals—both critical to U.S. defense and technology industries. Moreover, changes in China's trade negotiation team in April 2025 suggest that Beijing is recalibrating its strategy in response to mounting pressure from Washington [32],[33].

Overall, despite ongoing negotiations and optimistic public statements from both sides, a permanent resolution to the U.S.–China trade conflict appears unlikely in the near term. This continued uncertainty poses significant risks for the global economy and for other countries integrated into international supply chains [34],[35].

Conclusion

The tariff war between the United States and China has had a profound impact on the stability of international trade. The reciprocal tariff measures have not only disrupted the flow of goods between the two economic superpowers but have also triggered a domino effect that extends to third-party countries, including Indonesia. Even nations not directly involved in the conflict have experienced adverse consequences such as declining export demand, market uncertainty, and disruptions in global supply chains.

Moreover, the escalation of this conflict reflects a broader shift in global economic policy dynamics, where geopolitical considerations and domestic industry protection increasingly dominate the discourse over free trade. While negotiations between the U.S. and China have produced some agreements, these have tended to be temporary in nature and have failed to address the deeper structural issues at stake—such as intellectual property rights, technological dominance, and trade imbalances.

Amid ongoing instability as of 2025, developing countries must formulate adaptive strategies to mitigate the prolonged impact of the tariff war. These strategies may include diversifying export markets, enhancing product competitiveness, and engaging more actively in multilateral economic diplomacy. Without decisive action, the tensions between the world's two largest economies may continue to generate turbulence that undermines inclusive and sustainable global economic growth.

Conflict of Interest

The authors declare that there is no conflict of interest.

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