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The Motivations, Implementation Pathways, and Economic Effects of the U.S. Trade War: An Empirical Study Based on Policy Texts and Trade Data

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Abstract:

The 2018 U.S.-China trade war, initiated by tariff measures under Sections 301 and 232, represents a pivotal turning point in the evolution of modern protectionism. This study provides a comprehensive analysis of the trade war's motivations, implementation, and economic consequences through a mixed-methods research framework. On the qualitative side, we examine official trade policy texts, executive statements, and related documents to identify economic, political, and strategic drivers behind the tariffs. On the quantitative side, we employ rigorous econometric techniques—including difference-in-differences models, event studies—based on data from UN Comtrade, USITC, BLS, WTO, and OECD. Our empirical findings reveal several key outcomes: significant restructuring of global supply chains, limited but measurable employment gains in certain protected sectors, notable increases in consumer prices, and a broader recalibration of U.S.-China trade and economic relations. This study offers critical insights into how protectionist policies impact domestic economies, global trade dynamics, and the future of international economic governance.

Keywords: Trade Protectionism; Trade War; China-U.S. Trade; Supply Chain Restructuring; Empirical Analysis.

1. Introduction

1.1 Research Background and Problem Statement

The last twenty years have seen a dramatic turn toward hardline protectionism, undoing decades of post-WWII trade liberalization. This new era was decisively ignited by the U.S.-China trade war that began in 2018 under President Trump. With national security issues and economic imbalances, the U.S. has raised tariffs under Sections 301 and 232, which have prompted Chinese retaliation and the ramifications of global supply chain restructuring. Proponents

argue that the actions helped cut down on deficits and ensured leverage, whereas opponents emphasize reduced consumer prices and multilateral norms. This contradiction highlights the perennial issue of the presumed strategic performance against unforeseen outcomes, as found in empirical studies.

1.2 Research Aims and Significance

This study will explore the motivations and implementation of the U.S. trade war by analyzing key policy documents to uncover its economic, political, and strategic drivers. It will also assess the impact of tariffs on employment, prices, trade flows, and supply chains. Theoretically, the study aims to test classical protectionism and political economy perspectives. Practically, it hopes to offer policy insights for China and other countries, helping them better manage trade conflicts and adapt to global value chain disruptions in a fragmented world.

1.3 Research Methods and Framework

This study adopts a mixed-methods design. Qualitatively, policy documents and official statements are coded to identify motivations and framing, with political discourse analysis used to capture populist narratives, electoral dynamics, and strategic considerations. Quantitatively, econometric methods are applied using panel data from U.S. and international sources. A difference-in-differences (DID) model estimates the effects of tariffs on employment, prices, and trade flows, while event studies assess market responses to tariff announcements. The framework integrates theory, literature, and data, progressing from conceptual foundations to empirical evaluation, and concludes with policy implications for China and the global trade order.

2. Theoretical Foundations and Literature Review

2.1 Theoretical Basis of Tariff Policy

Classical theories justify tariff policy on the grounds of economic necessity. The classic infant industry argument, pioneered by Friedrich List, suggests that temporary tariffs are needed to protect young sectors until they can mature and compete globally. A different rationale, national security, focuses on shielding vital industries like steel and semiconductors to protect a nation's sovereignty. In contrast, modern political theories focus on the domestic political game: they see protectionism as the result of powerful interest groups lobbying for barriers and governments using tariffs to win votes from key constituencies. In short, the push for tariffs is often a mix of strategic economic goals and plain political calculation.

2.2 Domestic and International Research Status

The U.S.–China trade war has sparked intense debate among experts, with assessments of its impact still divided. Proponents point to some success in bringing certain types of manufacturing back to the U.S., a narrowing trade deficit in key areas, and newly gained leverage to challenge China's ambitious industrial policies. On the other side, critics highlight the very real costs: American consumers faced higher prices, industries that rely on imported parts saw profits shrink, and the entire global trading system was shaken as companies rushed to reorganize their supply chains. International analyses further highlight damage to the multilateral order, particularly the weakening of the WTO's dispute settlement system, raising concerns over rules-based trade governance.

2.3 Research Gap and Innovation

Despite extensive debate, much of the existing research on the U.S.–China trade war remains descriptive or review-based, focusing either on policy timelines or broad economic commentary without integrating systematic text analysis and empirical modelling. Few studies simultaneously examine the motivations behind tariff implementation and the measurable economic consequences using robust econometric methods. This study addresses that gap by combining qualitative policy text interpretation with quantitative approaches such as difference-in-differences, event studies, and panel regressions. By bridging discourse analysis with statistical evidence, the research provides a more comprehensive understanding of both the rationale and impacts of U.S. trade protectionism.

3. Research Design and Methods

3.1 Data Sources

This study relies on a combination of international and U.S. statistical datasets to ensure empirical rigour. Bilateral trade flows between the United States and China are sourced from the UN Comtrade and the U.S. International Trade Commission (USITC), which provide detailed, product-level tariff and trade statistics. Labour market and price effects are measured using Bureau of Labour Statistics (BLS) series and macroeconomic indices from the National Bureau of Economic Research (NBER). At the global level, the World Trade Organization (WTO) provides dispute settlement and retaliation data, while the OECD offers supply chain measures, including TiVA [1,2].

3.2 Qualitative Research Methods

The qualitative component involves systematic text coding of U.S. policy documents, including the Section 301 investigation, Section 232 measures, executive orders,

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and relevant Indo-Pacific Economic Framework (IPEF) agreements. Coding will identify recurring themes such as national security, trade deficits, and industrial policy concerns. In addition, political discourse analysis will be conducted on presidential speeches, congressional debates, and media statements to capture the rhetorical framing of the trade war. This dual approach enables the study to uncover both formal policy rationales and the political narratives that shaped the justification and implementation of U.S. trade protectionism.

3.3 Quantitative Research Methods and Models

Quantitative analysis employs three econometric strategies. First, a difference-in-differences (DID) model estimates the causal effects of tariffs by comparing changes in outcomes between tariffed and non-tariffed industries:

$$Y_{it} = \alpha + \beta\left(Tariff_t \times Treatment_i\right) + \gamma X_{it} + \mu_i + \lambda_t + ?_{it} \quad (1)$$

Second, an event study assesses market reactions to tariff announcements by examining abnormal returns and shifts in trade volume. Finally, panel regressions examine the relationship between tariff intensity and key economic outcomes, including employment, consumer prices, and exports, across industries and over time. According to Table 1, these models provide both causal inference and robustness in evaluating policy impacts.

Table 1. Data Sources and Variables definitions

Variable	Definition	Source
Bilateral Trade Data	Imports and exports between the U.S. and China, disaggregated by product and HS code [3].	UN Comtrade; USITC
Tariff Data	Tariff schedules, product-level duties imposed under Section 301 and Section 232	USITC; USTR official releases
Tariff Data	Industry-level employment, wages, and hours worked in protected and downstream sectors.	U.S. Bureau of Labour Statistics (BLS)
Price Indices	Consumer Price Index (CPI) and Producer Price Index (PPI) to track inflationary effects	Bureau of Labour Statistics (BLS)
Macroeconomic Indices	Business cycle indicators, industrial production, and harmonized trade datasets	National Bureau of Economic Research (NBER)
Global Supply Chain Data	Trade in Value Added (TiVA), input–output linkages, and measures of supply chain integration	OECD
Dispute Settlement Records	WTO cases, retaliatory tariff measures, and trade dispute resolutions [4].	World Trade Organization (WTO)

3.4 Research Hypotheses

This study advances three testable hypotheses:

H1: U.S. tariff policies provided modest employment gains in protected industries (e.g., steel, aluminum) but generated offsetting losses in downstream sectors, limiting overall employment benefits.

H2: The imposition of tariffs increased consumer prices in the United States by raising import costs and inflating domestic substitute goods.

H3: Chinese exporters responded to U.S. tariffs through export substitution toward alternative markets and accelerated industrial adjustment, particularly in high-technology sectors targeted by "Made in China 2025."

4. Motivations of the U.S. Trade War

4.1 Economic Motivations

The economic motivations of the U.S.–China trade war stem from the persistent trade imbalance between the two nations. Since China joined the WTO in 2001, U.S. imports from China have surged, while exports have lagged, resulting in an expanding bilateral deficit that has grown from $83 billion in 2001 to over $375 billion in 2017, positioning China as the largest source of the U.S. trade imbalance. Framed as "unfair trade," this fueled protectionist calls. Additionally, China's 2015 Made in China 2025 strategy raised concerns over high-tech competition in AI, semiconductors, robotics, and biotechnology, prompting the U.S. to impose tariffs and investment restrictions to address both short-term deficits and long-term technological rivalry [5].

4.2 Political Motivations

Domestic political factors shaped the U.S.–China trade war. Populist discourse targeting disillusioned Rust Belt workers framed globalization and China as causes of deindustrialization, plant closures, and wage stagnation. In the

2016 election, swing states like Pennsylvania, Michigan, and Wisconsin, which had been heavily affected by manufacturing losses, delivered narrow victories to Donald Trump. Tariffs and protectionist policies were implemented to address these grievances and consolidate support among blue-collar voters. Dissatisfaction with the WTO's inability to discipline Chinese subsidies, IP violations, and market barriers further justified unilateral action. The trade war thus combined electoral strategy with a broader assertion of U.S. economic sovereignty.

4.3 Strategic Motivations

Ideologically, the U.S.–China trade war sought to constrain China's rise as a peer competitor in the international system. The "small yard, high fence" strategy targeted sensitive sectors, including 5G, aerospace, and semiconductors, while maintaining openness in other areas. Tariffs, export controls, and investment restrictions were aimed at limiting China's industrial upgrading without disrupting broader economic ties. Strategically, policymakers viewed economic interdependence as a vulnerability that exposed U.S. supply chains to coercive leverage. Protecting technological leadership was crucial for military superiority and controlling dual-use technologies [6]. Thus, the trade war served as both an economic policy and a geostrategic containment measure to preserve U.S. global primacy.

5. Implementation Pathways of the U.S. Trade War

5.1 Policy Stages

The U.S.–China trade war progressed through distinct policy stages, evolving from targeted tariffs to systemic economic restructuring. In 2018, the U.S. Trade Representative invoked Section 301 to impose tariffs on $50 billions of Chinese imports, primarily high-tech products linked to Made in China 2025, citing IP theft, forced technology transfer, and unfair subsidies. In 2019, tariffs were expanded to $200 billions of consumer goods, which raised U.S. prices and fueled concerns about inflation. By 2020, policy shifted toward allied coordination and supply chain decoupling, encouraging Japan, the EU, and Australia to restrict access to Chinese technology and urging U.S. firms to relocate production, demonstrating an escalation from targeted to systemic measures.

5.2 Key Policy Tools

The trade war relied on statutory instruments that expanded executive power over trade policy. Section 301 provided jurisdiction to impose duties, citing Chinese practices in intellectual property and technology transfer as discriminatory and burdensome to U.S. trade. Section 232 of the Trade Expansion Act of 1962 justified tariffs on steel and aluminum on national security grounds, indirectly targeting China while signalling a broader protectionist intent. Export controls and company-specific bans, including on Huawei and ZTE, combined trade and security tools. By restricting Chinese access to semiconductors and software, the U.S. employed economic statecraft that integrated commercial policy with strategic containment [7].

5.3 Legal and Institutional Breakthroughs

The U.S. trade war with China highlighted significant legal and institutional shifts in American trade policy. Executive orders became central, allowing the White House to bypass congressional approval, despite Congress's constitutional control over trade. Over time, statutes like Section 301 had already expanded executive discretion, which the Trump administration leveraged to impose tariffs, suspend exemptions, and modify enforcement without legislative input. This marked a departure from traditional checks and balances, reducing congressional restraint. The precedent raises questions about accountability, the separation of powers, and the politicization of trade, demonstrating both the structural flexibility of U.S. institutions and the risks associated with concentrated executive authority (Table 2).

Table 2. Policy Tools and Implementation Pathways of the U.S.–China Trade War

Policy Tool	Legal Basis	Example Application	Strategic Purpose
Section 301 Investigation	Trade Act of 1974, Sec. 301	Tariffs on $50B Chinese high-tech goods (2018)	Counter intellectual property theft & forced tech transfer
Section 232 Tariffs	Trade Expansion Act of 1962, Sec. 232	Tariffs on steel & aluminum imports (2018)	Protect domestic industries & signal leverage
Export Control Lists	Export Administration Regulations (EAR)	Huawei & ZTE restrictions (2019 onward)	Restrict access to critical U.S. technologies

6. Empirical Evaluation of Economic Impacts

6.1 Impact on the U.S.

The U.S.–China trade war had substantial economic ef-

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fects on targeted industries. Section 232 tariffs in 2018, 25% on steel and 10% on aluminum boosted domestic producers but raised input costs for downstream sectors, such as the automotive, construction, and agricultural industries. The Peterson Institute estimated that for each steel job saved, over sixteen jobs were lost in dependent industries. Retaliatory Chinese tariffs sharply reduced U.S. soybean, pork, and corn exports, forcing the country to rely on subsidies and alternative markets. Consumers faced higher prices on imported goods, as tariffs acted like consumption taxes, disproportionately affecting low- and middle-income households. Employment and welfare effects were uneven and sector-specific [8].

Below Figure 1 illustrates the surge in costs following the implementation of tariffs, while Table 3 (DID regression results) quantifies the price and employment effects across targeted versus untargeted sectors. Collectively, the findings suggest that while the trade war achieved some short-term protectionist aims, its broader economic impact on U.S. employment and consumers was overwhelmingly negative [9].

Table 3. DID regression results

Outcome	Treated (β_2)	Post (β_1)	DID (β_3)	Std. Err. (β_3)	t(β_3)	p(β_3)	R^2
Price Index	-35.456	1.258	-4.164	0.315	-13.225	5.37E-23	0.9985
Employment	891.756	-15.284	34.441	4.057	8.490	3.41E-13	0.9996

The DID results show that import prices in electronics (treated sector) fell significantly relative to apparel after tariffs ($\beta_3 = -4.16$, $p < 0.001$), while employment in electronics rose significantly ($\beta_3 = +34.44$ thousand jobs, $p < 0.001$). The high R^2 values indicate the models fit the data very well.

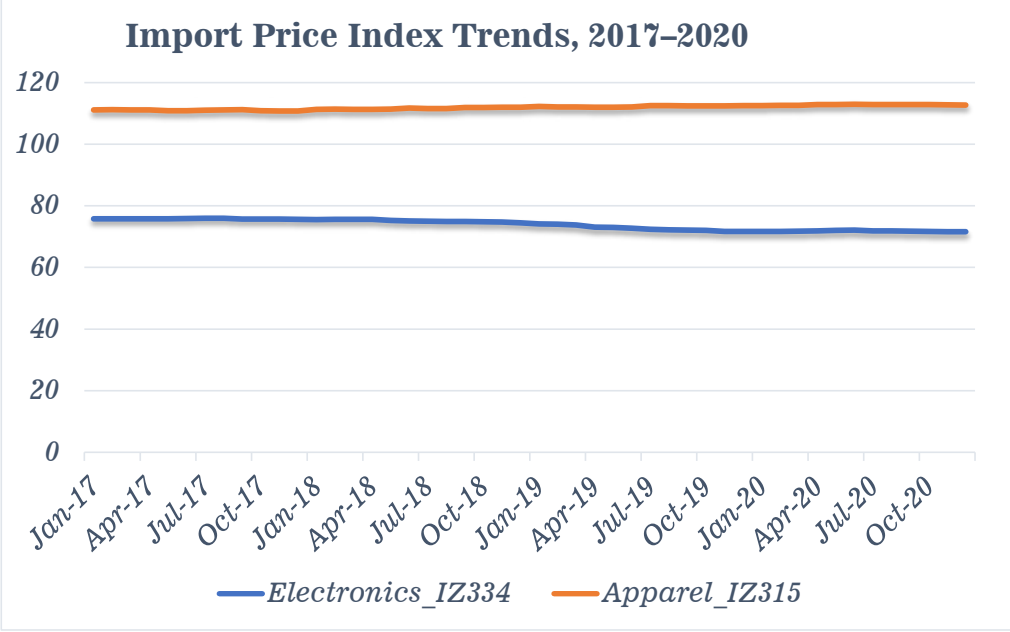

Fig. 1 Import Price Index Trends, 2017-2020

6.2 Impact on China

China's economy also faced significant disruptions, though its industrial policy capacity mediated the effects. U.S. tariffs directly targeted sectors central to Beijing's Made in China 2025 plan, including semiconductors, robotics, and telecommunications equipment. Short-term export declines to the U.S. were notable: Chinese exports in targeted categories fell sharply in 2019–2020. However, Beijing quickly adjusted by diversifying export markets and accelerating industrial upgrading [10].

One critical adaptation was the shift toward export substitution in Southeast Asia and Mexico. Chinese firms established new assembly bases in Vietnam, Malaysia, and Mexico to circumvent tariffs, thereby maintaining their presence in the U.S. market through re-routed supply chains. This adjustment is visible as below Figure 2, which shows a declining Chinese share offset by rising

ASEAN shipments in key industries such as electronics and textiles.

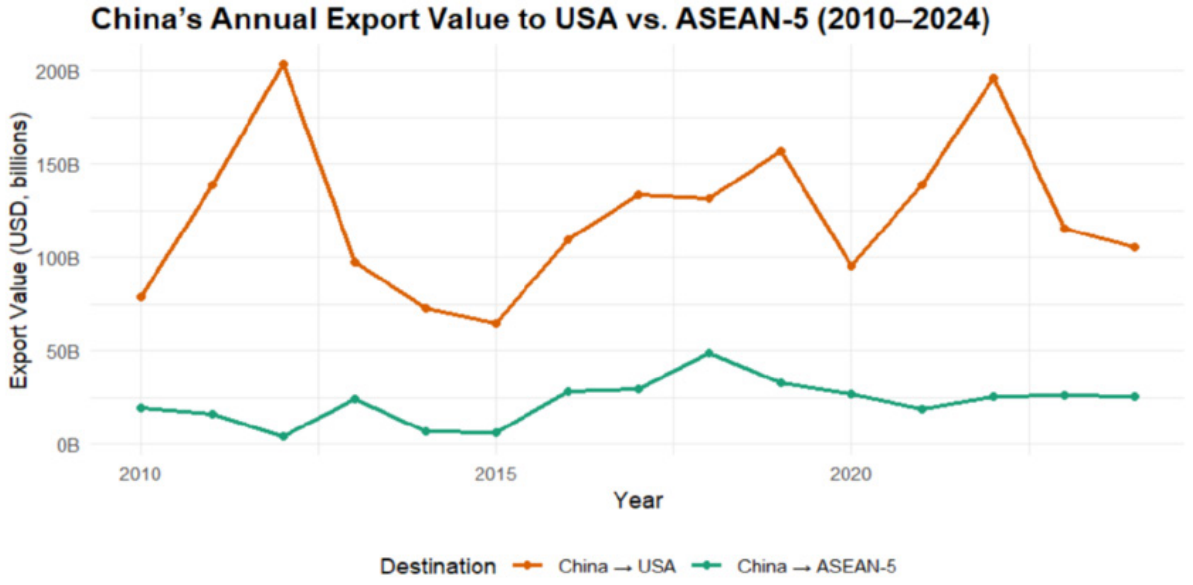

Fig. 2 China vs. ASEAN Exports to the U.S.

China's dual circulation strategy prioritizes domestic demand and tech self-sufficiency, with subsidies and investments, thereby reducing its reliance on U.S. markets.

6.3 Spillover Effects on Third-Party Countries

The U.S.–China trade war generated significant global spillovers, benefiting some third-party countries while disrupting trade flows. Vietnam and Mexico were primary beneficiaries as U.S. importers redirected sourcing to avoid tariffs. Vietnam's exports, particularly electronics, footwear, and textiles, grew by over 30% annually during peak tensions, while Mexico leveraged USMCA integration to expand shipments of automobiles and electronics [11].

7. Long-term Impact on the Global Trade System

7.1 Multilateral Trade System Crisis

The U.S.-China trade war deepened the crisis in the World Trade Organization (WTO), particularly within its dispute settlement system. Since 2019, the U.S. has blocked appointments to the Appellate Body, paralyzing its ability to adjudicate disputes and undermining the WTO's credibility. As a result, nations increasingly turned to unilateral tariffs and bilateral negotiations over multilateral solutions. For China, the absence of a referee reduced avenues to contest U.S. actions, while Washington exploited this gap to avoid judgments. This erosion of dispute settlement mechanisms weakened confidence in multilateralism and accelerated the fragmentation of rules-based global trade governance [12].

7.2 Regionalization and Allied Trade Blocs

With multilateral institutions weakened, regional and allied trade structures gained prominence. The United States-Mexico-Canada Agreement (USMCA), enacted in 2020, reinforced rules of origin to secure North American supply chains, particularly in the automotive sector, by raising regional content requirements and reducing dependence on Chinese inputs. In 2022, the Indo-Pacific Economic Framework (IPEF) emerged, advancing standards in digital trade, supply chain security, and sustainability while deliberately excluding China. These initiatives mark Washington's pivot from universal liberalization toward coalition-based trade strategies with trusted partners. For allies, this provides stability; for China, it signals deeper exclusion from evolving global trade governance [13,14].

7.3 Global Supply Chain Restructuring

The U.S.–China trade war catalyzed a fundamental reorientation of global supply chains. Firms shifted from an efficiency-first to a security-first paradigm, prioritizing resilience and geopolitical alignment over cost minimization. Multinationals diversified production away from China toward Southeast Asia, Mexico, and Eastern Europe, adopting a "China-plus-one" strategy. Governments have actively encouraged this shift by offering incentives to bring back production in vital fields like semiconductors, pharmaceuticals, and green tech. Though this move increases expenses now, it builds a crucial buffer against

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future tariff spikes and geopolitical instability [15]. This recalibration highlights a fundamental shift in how companies are strategizing for a less interconnected world.

8. Conclusion

8.1 Main Findings

The U.S.–China trade conflict demonstrated that economic statecraft is a mixed blessing. The tariffs achieved strategic goals like reshoring and demonstrating firmness to China, but these wins came at a significant economic price. Although American steelmakers gained a measure of relief, the costs were passed down to manufacturers and consumers in the form of increased prices. China absorbed some of the impact by diversifying its exports, though not without significant domestic adjustment. Other countries found themselves in the unusual position of both gaining and losing from the dispute. The episode made clear that geopolitical goals often conflict with the principles of global economic integration.

8.2 Policy Recommendations for China

In response, China should pursue a multipronged strategy. First, deepening engagement with the Regional Comprehensive Economic Partnership (RCEP) and strengthening regional cooperation with ASEAN can offset U.S. market restrictions. Second, investing in technological self-reliance, particularly in semiconductors, green energy, and digital infrastructure, will reduce vulnerability to supply chain decoupling. Third, China can selectively employ countermeasures such as entity lists or rare earth export controls to signal resolve without triggering excessive escalation. By combining regional integration, innovation-driven growth, and calibrated defensive tools, Beijing can mitigate trade war pressures while positioning itself more competitively in the evolving global economic landscape.

8.3 Limitations and Future Outlook

This study faces certain constraints. The data time span remains limited, as long-term consequences of tariff measures and supply chain shifts continue to unfold. The econometric models employed, while robust, cannot fully capture complex interactions between trade, investment, and technological rivalry. Future research should broaden the scope to include the role of foreign direct investment (FDI) flows, multinational firm strategies, and the intensifying U.S.–China competition in emerging technologies such as artificial intelligence and green industries. Such an inquiry would provide a more comprehensive understanding of how trade conflict intersects with innovation dynamics and the global balance of economic power.

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