U.S.-China Trade & the Return to Protectionism

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China’s rise as an export powerhouse

Source: World Bank, World Development Indicators.
Source: Carlos Razo (UNCTAD) based on UNCTAD Statistics; Graph shows share of global exports; Green = developing, Blue = developed
Why did China’s export growth accelerate after joining WTO?

- Contrary to popular belief, other countries did not reduce their tariffs towards China. Instead, it was the removal of uncertainty.

- Joining the WTO meant that China itself had to lower tariffs and make some other changes within their own economy.
What is the “China Shock” and why study it?

- Very rapid growth of Chinese exports to the world.

- The China Shock is a special shock that was large enough as well as an unexpected one.

- It’s usually hard to study the effects of trade on any economic variable, because many things are occurring simultaneously.

- There are many lessons to learn and they matter more than just trade with China.


- Policy: What are the effective tools to manage and mitigate the costs of trade adjustment?
Source: Figure 1 of Autor, Dorn, and Hanson (2013); Data on United States
Known effects of the China Shock

- China's rapid rise, while enormously positive for world welfare, has created identifiable losers in trade-impacted industries and the labor markets in which they are located.

- US industries facing rising exposure to Chinese imports experienced sizable contractions in employment, number of establishments, and employment per establishment.

- US industries in exporting sectors gained from access to cheaper Chinese inputs and increased employment.
US-China tariff rates toward each other and rest of world (ROW)

Source: Peterson Institute for International Economics
Phase One agreement - China’s purchases of US goods and services

58% of two-year target
59% as of year-end 2020

Total two-year purchase commitment
$502.4 bn

+ $200 bn above 2017 baseline

$302.4 bn
$290.8 bn

Source: Peterson Institute for International Economics
Known effects of the US-China Trade War

- Fall in bilateral exports and imports of US and China.

- Complete pass-through of tariffs to consumers.

- Distributional impacts in both US and China.

- Employment in export sector and sectors that use intermediate inputs decreased in the US.

- Bystander countries increased their exports to the US and the rest of the world and global trade increased overall.