

Original Paper

The Causes, Current Status, and China's Response Strategies to the US-China Trade Friction—An Analysis of Tariffs, Industrial Chains, and Institutional Competition for the Period 2018-2026

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Abstract

After the start of the U.S. Following China's Section 301 investigation in China and the additional tariffs by the United States in 2018, the economic and trade disputes between China and the United States have expanded from a goods deficit to include technological blockades, investment restrictions and contests over global rules, becoming one of the main forces reshaping the economic and trade system of the world. As the economic size gap between the two countries has narrowed, the geopolitical environment has changed, global industrial chains have been reorganized, and the economic and trade confrontation between China and the US has shown traits of being long-term and increasingly complex. According to the official data from 2018 to 2026, this paper will examine the reasons for friction in the four main areas: economic structure, major-power strategy, institutional differences and competition in value chains, as well as current changes in bilateral trade, tariff policies and industrial relocation. Some deficiencies in China's foreign trade have been pointed out by the paper, such as market concentration, dependence on core technologies, weak influence over global rules and pressure on the industrial chain. Based on this study, the Sino-U.S. friction is a long-term problem caused by different stages of development and shifts in the global order of interests, and short-term tariff adjustments will not resolve this issue. Therefore, China should coordinate the work of these four areas—market diversification, independent scientific and technological innovation, institutional openness and industrial chain security—to reduce external risks and promote high-quality, sustainable development of foreign trade.

Keywords

China-US trade friction, trade imbalance, industrial chain restructuring, institutional-oriented

opening-up, competition among major powers

1. Introduction

As the world's two largest economies, China and the United States have had a significant impact on the global economy. In 2018, The US rolled out multiple rounds of large-scale supplementary tariff measures targeting Chinese merchandise, framing the policy objectives as narrowing bilateral trade gaps and strengthening intellectual property safeguards; in 2020, the first round of economic and trade talks offered some relief, but Shifts in U.S. domestic political governance frameworks drove continuous expansion of import limitation measures targeting Chinese products. In 2025, a new round of tariff escalation policies introduced at the Geneva Talks has made new energy and semiconductors the new focus of this strategic competition, and in 2026, the United States introduced a globally unified import surcharge to further reduce the scope for Sino-US cooperation and changed the bilateral relationship into a new form of both competition and cooperation^[1].

Most of the previous research on trade conflicts is older than 2020, and little has been done recently to study new developments such as tariff increases in recent years, changes in supply chains and strategic interactions among emerging industries. Literature review^[2], statistics and comparison are used in this paper; with authoritative data from the customs office and the World Trade Organization covering the period 2018-2026, the "current situation - reasons - problems - countermeasures" framework is applied, relevant information from industrial and policy levels is integrated^[3], and practical ways to deal with the economic and trade relations between China and the US and promote the transformation and upgrading of foreign trade are put forward^[4].

2. Current Situation of China-US Trade Friction

After eight years of strategic adjustments and optimisation, the speed of growth in China-US bilateral trade has slowed down due to trade friction; various features of trade, such as trade volume, changes in commodity structure, tariff policies and industrial distribution, have changed considerably, and the key indicators of trade are now very different from those in the past. Together, these many-sided developments present the general situation of China-US economic and trade relations at present^[5].

2.1 The Total Trade Volume Has been at a High Level and Bilateral Economic and Trade Dependence Continues to Fall

In 2018, the total amount of China-US trade was about 633.5 billion US dollars, and after the tariff shock, it fell. It reached US\$690.1 billion in 2024 but then dropped to US\$559.7 billion in 2025 because of high tariffs and a change in orders, down 18.90% from the previous year^[6].

Simultaneously^[7], the bidirectional market dependency has decreased: China's share of exports to the United States from total exports was 18.99% in 2017, but this will fall to 11.1% by 2025, and China's share of imports from the U.S. will be only 7.4% by 2025; this will be the lowest since 2002. The deep economic and trade integration of China and the United States is gradually weakening^[8].

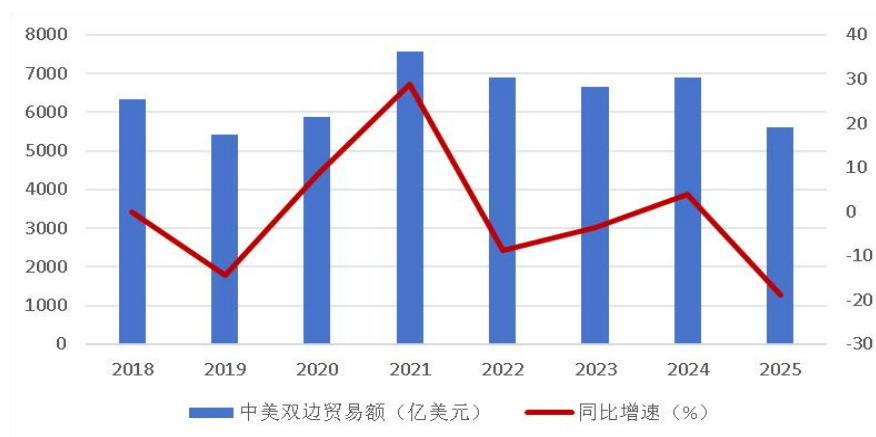


Figure 1. Statistical Table of Total Bilateral Trade between China and the United States and Corresponding Trade Share for the Period 2018-2025

Data sources: General Administration of Customs of China, U.S. Department of Commerce

2.2 The Goods Surplus Will Remain Stable in the Long Run, but there will Still be a Deficit in Services and High-end Technology

China has always had a trade surplus in goods trade due to its full-process manufacturing system^[9], and in 2022, this surplus reached \$404.1 billion, a new high; by 2025, it will have fallen to \$280.3 billion, and among its exports, low-value-added products in the categories of mechanical and electrical equipment^[10], textiles and household goods accounted for more than 60% of the total.

The trade in services and technology is uneven; by 2025, the US will be 80 billion US dollars ahead of China in the service trade surplus, and finance, education and patent licensing are expected to account for most of the US's profits; at the same time^[11], sectors such as semiconductors, precision equipment and industrial software are still highly import-dependent, and China's total chip imports will exceed 410 billion US dollars by 2025. The uneven distribution of benefits due to the difference in industrial tiers has become the main reason cited by the United States for starting trade frictions^[12].

Table 1. Data on China-US Goods and Services Trade Balance (2020-2025)

a particular year	Goods Trade Surplus (US\$ million)	Service Trade Surplus (US\$ billion)
2020	3169	-356
2021	3965	-418
2022	4041	-427
2023	3663	-540

a particular year	Goods Trade Surplus (US\$ million)	Service Trade Surplus (US\$ billion)
2024	3345	-712
2025	2803	-801

Data sources: Ministry of Commerce, Office of the U.S. Trade Commissioner.

2.3 Tariffs Are Rising Gradually, and Due to Changes in Policy, Enterprises have Become More Uncertain

Between 2018 and 2020, the United States set two levels of tariffs, 7.5% and 25%, on many lots of Chinese goods exceeding \$550 billion and added extra duties to steel and aluminium products; in 2025, these tariff rates rose to 15% and 35% respectively, and punitive tariffs of 60% were also imposed on new energy vehicles^[13], photovoltaic products and energy storage products. Although most of the tariffs have been temporarily reduced in 2024 following the Geneva talks, by 2026 the United States will introduce a uniform 10 per cent import surcharge worldwide, and frequent adjustments to U.S. trade policy frameworks have elevated operational uncertainty for cross-border trading enterprises^[14].

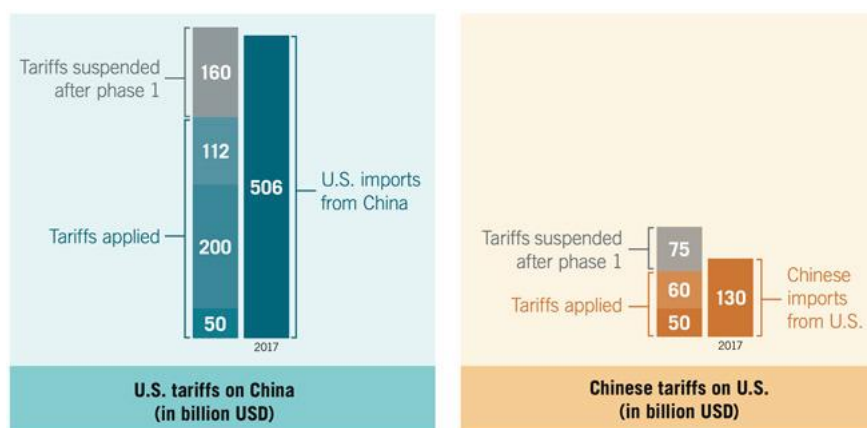


Figure 2. Comparison of the Scope of Tariff-Covered Goods in China and the United States

Image source: "US-China Trade War Tariffs: An Up-to-Date Chart"

2.4 Regional Restructuring of the Global Industrial Chain: "De-Chinaisation" of Supply Chains Has Limited Impact

The proportion of overseas and nearshore outsourcing in the United States has been rising, and production bases are now located in Vietnam, Mexico and India; by 2025, imports from Vietnam will have increased by 22% year-on-year, but the electronic components sector in Southeast Asia is still heavily dependent on supply chains originating from China^[15].

China has increased the scale of opening up its overseas market to reduce risk; by 2018, exports to ASEAN and countries in the Belt and Road accounted for 25 per cent of the total, and by 2025, this

proportion will be around 38 per cent, and new overseas markets will be gradually added in line with the continuous rise in the share of high-end manufacturing exports such as photovoltaics and new-energy vehicles in overseas markets^[16]. The phenomenon of regional clustering of industrial chains is gradually emerging, but China's support for the full industrial chain is still lagging behind the world^[17].

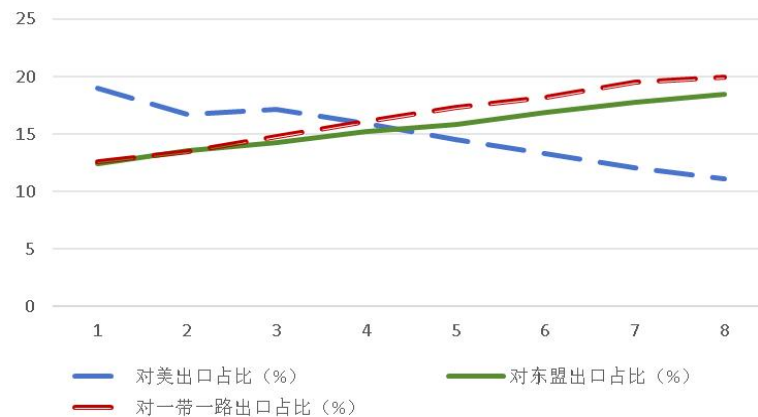


Figure 3. Comparison Chart of China's Export Share to the United States, ASEAN and Countries along the Belt and Road from 2018 to 2025

Data source: General Administration of Customs of China

3. The Four Deep-rooted Causes of the China-US Trade Friction

The China-US trade friction is not only a result of the imbalance in trade, but also the result of the combined effects of many other factors, such as economic structure, strategies of major powers, economic and trade systems, industrial value chains, etc. The above contradictions have intensified the economic and trade conflict in recent years^[18].

3.1 The Main Reason for the Trade Imbalance is that the Domestic and Foreign Economic Structures are Different

The United States has high consumption and low savings, and its manufacturing sector has been hollowed out; by 2025, its national savings rate will be as low as 3.5%, so the deficiency in domestic production capacity for consumer goods will need to be covered by imports. In contrast, China's manufacturing accounts for about 30% of the world's total^[19], but its own consumer market has limited scale; thus, it needs to export a large number of manufactured goods and will naturally form a complementary supply-demand structure with the United States. Trade deficits are the results of the different development models in the two countries; however, the United States attributes the trade imbalance to China solely and rolled out corresponding trade restrictive measures.

3.2 Transformation of the Global Power Structure: Established Powers Conduct Strategic Containment

By 2025, with the economy at about 70% of that in the United States, China will have achieved industrialisation in new energy, 5G and artificial intelligence, thus challenging America's position as a

world economic superpower. In 2017, The US formally categorized China as a “primary strategic rival”, promulgated the CHIPS and Science Act and Inflation Reduction Act, and sought to consolidate its industrial edge via technology export controls, cross-border investment review mechanisms and trade limitation provisions; thus, the root cause of the economic and trade friction is strategic competition in the era of power shifts among major countries.

3.3 The Competition to Lead the Construction of an Economic System and Global Rules is Intensifying

The WTO’s dispute settlement system has not been in operation for a long time, and the United States often violates the multilateral rules of trade with its policies. There are basic differences in the economic systems of China and the United States; the U.S. side takes industrial subsidy regimes and intellectual property standards as entry points to label China’s trade practices as “uncompetitive under Western norms”, which is in fact a result of the difference in their development models. At the same time, the United States is leading regional free trade agreements, such as the Inflation Reduction Act (IPEF) and USMCA, to establish high-standard trade rules in line with its own interests and compete for dominance in global economic and trade governance; thus, tensions have reached the level of institutional competition.

3.4 Restructuring of the Global Value Chain: Increased Competition in High-End Industries

In the old division of labour, the United States was in charge of high-end components in the US, such as research and development and core parts, and China was responsible for low-end processing and assembly; with industrial upgrading, China has moved up the value chain and is now directly competing with the United States in areas such as semiconductors and new energy, thus affecting the interests of its core industries. In the post-pandemic period, countries are strengthening the security of their industrial chains, and industrial relocation and the reshuffling of regional division of labour have disrupted the original distribution of interests, thus worsening bilateral trade conflicts.

4. China’s Foreign Trade has four main Practical Problems

Amid to the continuous impact of China-US trade friction and shifts in the global economic and trade environment, various problems have been exposed in the market positioning, technology research and development, participation in international rules-making and industrial security of China’s foreign trade sector; these practical problems have hindered the high-quality development of China’s foreign trade and economic relations.

4.1 Dual Imbalanced Structure of the Market and Products, and Weak Risk Resistance

Although there has been some diversification in recent years, the exports of traditional industries such as textiles, furniture and electromechanical equipment still account for more than 20% of the total exports to the United States; tariffs and other restrictive measures by the US will directly affect orders in these sectors, and most of the exported products are low-to-medium-end manufactured goods that are highly susceptible to homogenization in competition, have weak bargaining power for enterprises, and face a situation where tariff costs can only be covered by reducing profits.

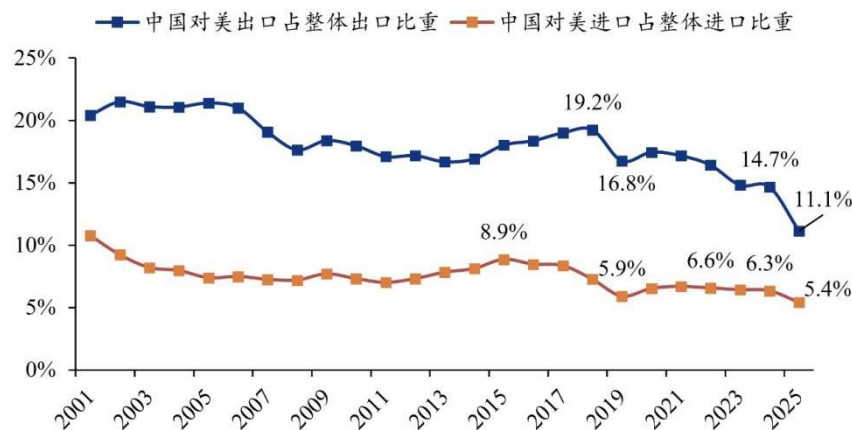


Figure 4. Proportion of China's Exports to the United States and Imports from the United States

4.2 Insufficient Self-Reliance in Core Technologies: "Bottleneck" Risks Exist in Key Areas

China's chip industry, high-end machine tools, industrial software and precision test equipment are all highly import-dependent, and at the same time, the United States continues to expand its Entity List to restrict technology exports to China. China's investment in basic research is only 0.6% of its GDP, much lower than that in the United States; at the same time, the efficiency of industry-academia-research collaboration is relatively low, there is a shortage of high-end talent, and these technological deficiencies have long held back industrial upgrading.

4.3 Global Economic and Trade Rules have Relatively Weak Discourse Power, and there Are Deficiencies in Institutional Openness

The formation of the world trade system is led by Europe and the United States; China has passively accepted the existing rules in the course of WTO reform and regional free trade agreements, and thus has been unable to fully realise its development goals. China still needs to strengthen its system for protecting intellectual property rights, cross-border data flow and fair competition in the market compared with the high standards in other countries, so the United States regularly launches targeted trade review procedures against Chinese entities and industries.

4.4 Deterioration of the External Business Environment Is Putting Pressure on the Stability of Industrial Chains

The prevalence of unilateral trade policy tools and shifting geopolitical landscapes have lifted global logistics and raw material input costs, and overseas consumer demand is weak; more than 600 domestic enterprises have been listed in the US. Entity List: Restriction on Cross-border Activities. Low-end processing orders are continuously relocated to Southeast Asian economies, which creates greater operational pressure for domestic small and medium-sized supporting manufacturers and uncertainty about foreign trade development in the face of all sorts of external shocks.

5. Four Ways for China to Deal with the China-US Trade Friction

Given the current situation of China-US economic and trade relations, and in light of the various

problems that have arisen from the development of foreign trade, we will adopt the principle of aligning solutions with specific problems and take targeted actions; thus, we will formulate response strategies in the four areas of market structure, technological innovation, institutional development and industrial security to steadily reduce the development risks of trade friction.

5.1 Promote Diversification of Trade Markets and Optimise the Structure of Export Products

Strengthen the development of the RCEP and ASEAN markets, expand to the Belt and Road, Middle East, Latin America and emerging markets in Africa, build a multi-point supported global sales network, make full use of policy support, such as export tax rebates and cross-border credit, to help enterprises find new business opportunities.

Promote the transformation and upgrading of exports by encouraging enterprises to increase investment in research and development, build independent brands, raise the proportion of high-value-added technological products in the export volume, foster new forms of foreign trade such as cross-border e-commerce and market-based procurement, diversify imports of energy, equipment and agricultural products, and achieve a balanced development of both import and export activities.

5.2 Addressing Problems in Core Independent Technologies and Strengthening the Industry-Academia-Research Innovation Chain

In light of the national major science and technology projects, we will address the "bottleneck" problems by increasing the proportion of investment in basic research, strengthening incentive mechanisms to attract top-tier talents, building industry innovation consortiums for the commercialisation of technologies developed by research institutions, and adopting a tiered approach in accordance with the medium- and long-term development plans of the manufacturing sector to achieve technological self-sufficiency and reduce external technological dependence at the source.

5.3 Increase the Openness of Institutions and Actively Participate in Global Economic Governance

In line with the high-standard economic and trade rules of the international community, strengthen the all-round protection of intellectual property rights, implement the "Foreign Investment Law", and build a fair and open international business environment. Actively participate in the reform of the WTO, the economic and trade cooperation of BRICS and SCO, put forward Chinese solutions in regional free trade agreements, and jointly work with developing countries to build a more equitable multilateral trading system and reduce institutional trade friction.

5.4 Strengthen the Whole Industrial Chain and Build a Diversified and Secure Supply Chain

Strengthen the construction, improvement and expansion of industrial chains; support specialisation, refinement, distinctiveness and innovation of small and medium-sized enterprises (SMEs) in addressing supply chain gaps, promote the development of local leading industrial clusters, orderly reduce outdated and low-value-added production capacities, keep core manufacturing segments, and prevent large-scale outflow of industries.

Build overseas industrial parks to strengthen cooperation in the construction of international production bases, build reserve systems for key components and strategic materials with an early warning

mechanism for risks, balance the foundations of domestic industry with various global platforms, and improve the resilience of industrial supply chains to all kinds of shocks.

6. Conclusion

The eight years of trade friction have long gone beyond simple tariff disputes and now constitute all-encompassing confrontations among the major powers in the areas of economics, security, technology and regulation; this situation cannot be resolved in the short term, and in the long run, competition and cooperation will become the new normal. Trade friction has had two effects: it has slowed the growth of foreign trade and exposed the structural problems in development; at the same time, it has also forced China to proactively change its development model and promote a shift in foreign trade from expanding scale to improving quality.

Large-scale supply chain separation initiatives advanced by both sides run counter to their overlapping economic interests, and there are still many areas for cooperation in global recovery, climate governance and commodity stability. China advocates trade governance models centered on multilateral coordination and reciprocal economic gains, has continually strengthened the foundation for the development of foreign trade by building a system of market diversification, technological self-reliance, institutional openness and industrial chain security. Constructively managing Sino-US economic and trade competitive dynamics will facilitate the high-quality advancement of China's internal and cross-border trade sectors, and at the same time, provide China with support to stabilize the global trade order and build an inclusive and win-win international economic landscape.

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