Trump Tariffs and US China Trade: An Analysis with Special Emphasis on Implications for US Businesses

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Abstract

In recent years, globalization and liberalized trade based on free trade agreements and extensive global supply chains are being replaced by a fragmented approach to trade that focuses on economic and national security goals. This article examines US trade with China, the changing composition of Chinese exports and the response of the US government and business sector to Chinese competition. It analyses the nexus between US business operations, Chinese trade restrictions and the US trade deficit. The paper also investigates US business perspectives on Trump tariffs on China. It concludes by suggesting business strategies to deal with tariffs and supply chain volatility as well as government policies to complement business strategies.

Globalization and trade

Since the 1940s, globalization and the liberalization of trade based on ground rules established by the General Agreement on Tariffs and Trade (GATT) (now the World Trade Organization) encouraged countries to specialize in areas of their comparative advantages and engage in the efficient production and exchange of goods and services. In the 1990s, this wave of globalization was associated with the ICT revolution and the establishment of global production networks which further facilitated the movement of parts and components between nations with limited restrictions.[1]

While traditional globalization has emphasized free trade agreements and extensive use of global or regional supply chains, current dynamics suggests a resurgence of mercantilism and a fragmented approach to trade. Recent US policies indicate a shift from multilateral and regional trade agreements to focused bilateral collaborations and localized supply chains to

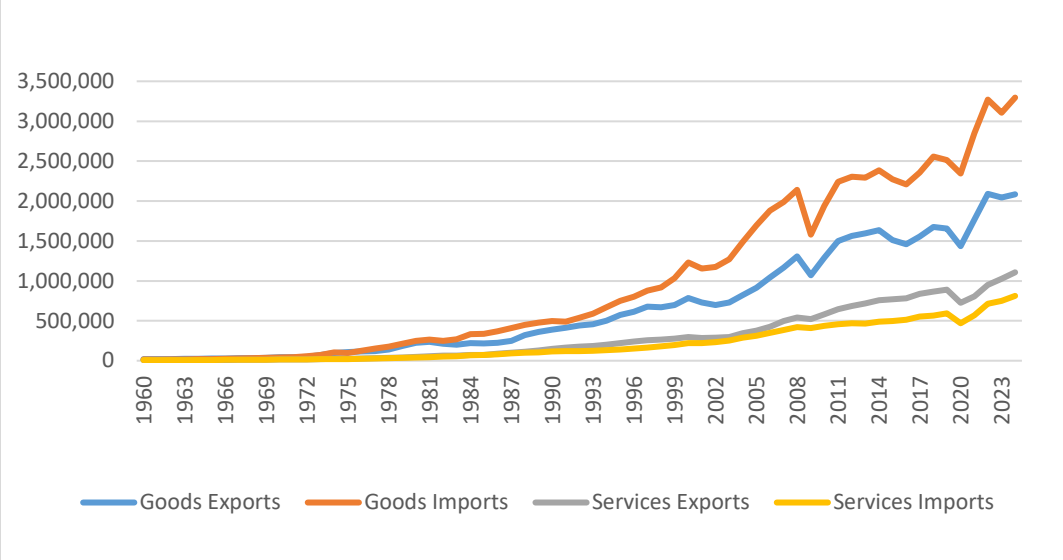
protect economic and national security and reduce dependence on unreliable trading partners. Its new trade policy focuses on addressing unfair and unbalanced trade with trading partners, uses tariffs as an important means of reducing trade imbalances, encourages companies to bring manufacturing back to the US and switch to domestic suppliers. An important part of this policy relates to the reevaluation of economic and trade relations with China, i.e., China's trade policy and practices.

How large is the US trade deficit?

A trade deficit occurs when a country imports more goods and services than it exports. The United States (US) has run a trade deficit almost every year since the mid-1970s. It has the largest trade deficit in the world. Based on data from the US Census Bureau and the US Bureau of Economic Analysis, here are key facts regarding the US trade deficit:

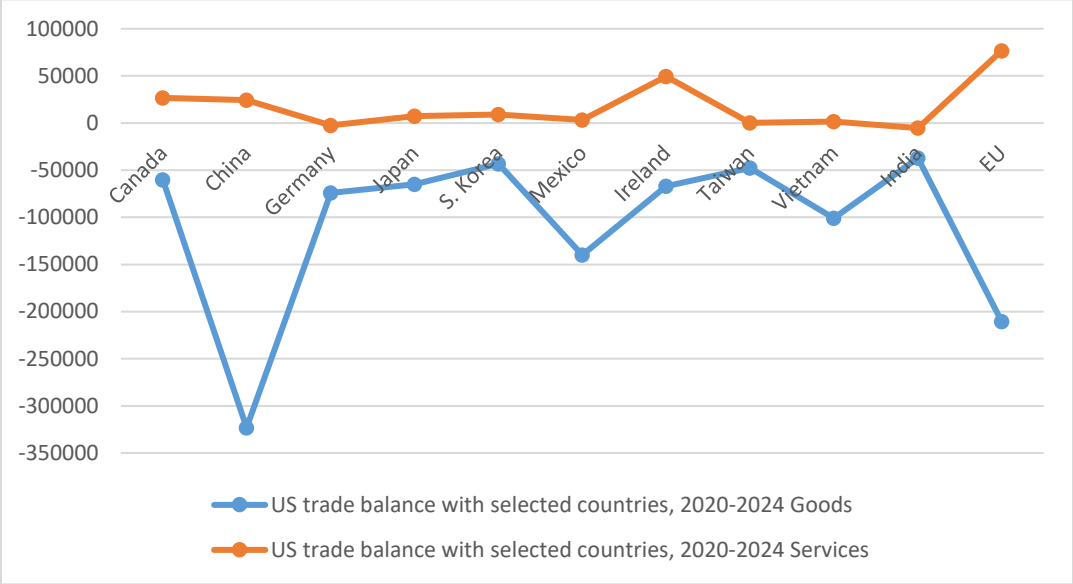
- In 2024, its total trade deficit (goods and services) totaled $904 billion.[2] Its deficit mainly arises from goods trade since it runs a surplus in services such as banking, travel and transportation ($312 billion trade surplus in 2024).
- In 2024, the country's goods imports totaled $3.3 trillion while exports were nearly $2.1 trillion, producing a goods trade gap of $1.2 trillion.
- The largest trade deficits are with countries such as China, Mexico, Vietnam, Ireland, Germany, Taiwan, Japan and South Korea.
- Even though the deficit has been growing over the years, it remains small as a percentage of the US economy (3.1% of GDP in 2024), down from the 2022 pick of 3.7% GDP. Relatively large reductions in the deficit were experienced during the period of the financial crisis (2009) and the Covid pandemic in 2020.
- In September 2025, the US trade deficit narrowed more than expected to its smallest level in more than five years, raising hopes that exports could provide a boost to economic growth in the third quarter. Exports increased by 3 percent, mostly fueled by exports of non-monetary gold while imports climbed 0.6 per cent (limited due to the impact of tariffs).

Figure 1. US Trade deficit in goods and services (mill USD)



Source: US Census Bureau, 2025.

Figure 2. US trade balance with selected countries (Mill US$, 2020-2024)



Source: US Census Bureau, 2025.

US trade with China

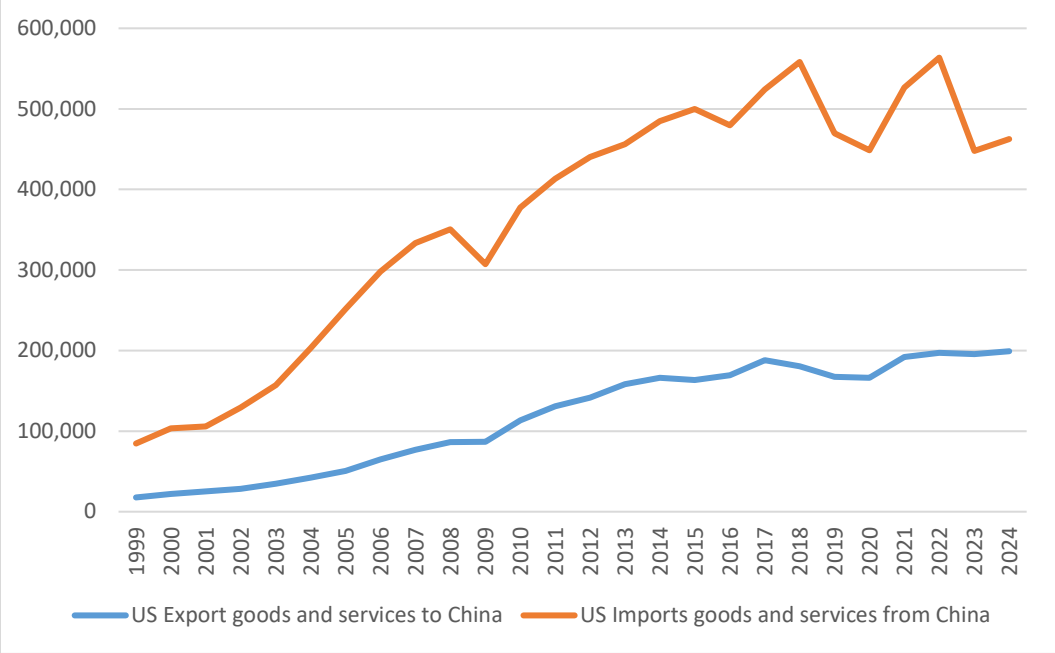
The trade deficit with China has expanded dramatically since China entered the WTO in 2001. China's strategic investments, low wages, skilled labor and increased demand for its competitive goods has contributed to its success in US and other markets. The increasing trade deficit with China has been of growing concern to successive US administrations. President Trump

argues that Beijing is ripping off the US by exporting to the big US market (with limited trade restrictions) while limiting market access to US exporters and providing inadequate protection to the intellectual property rights of US firms operating in China. China has been running a trade surplus with the US since 1984, and this has expanded over the years to about $296 billion (2024) accounting for about 22 percent of US trade deficit.

Over the last three decades, China has become a dominant player in global merchandise trade. Since 2010, it has emerged as the largest exporter and the second-largest importer of goods in the world. It is also the dominant trading partner for most countries in the world, importing fuels, minerals, agricultural products and other raw materials and exporting manufactured goods.

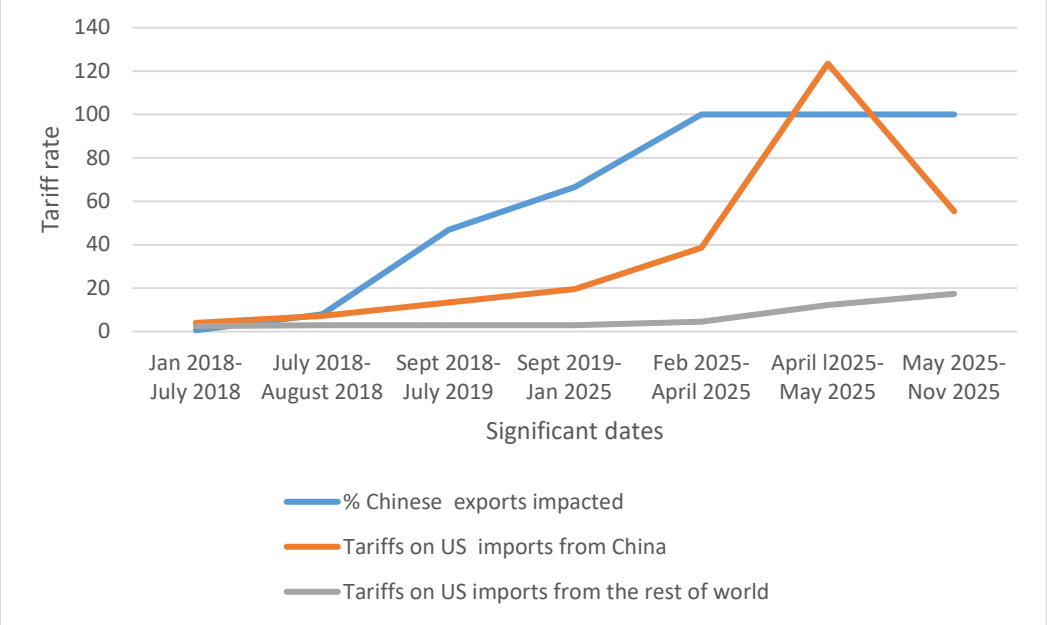
China's trade surge is remarkable. In 2000, US total trade stood at $2 trillion, which is over four times China's trade of $474 billion. From 2000-2024, US trade grew by 167% while China's trade surged by about 1200%. By 2024, total US trade reached $5. 5 trillion while China's trade reached $6.2 trillion.

Figure 3. US trade with China (mill USD)



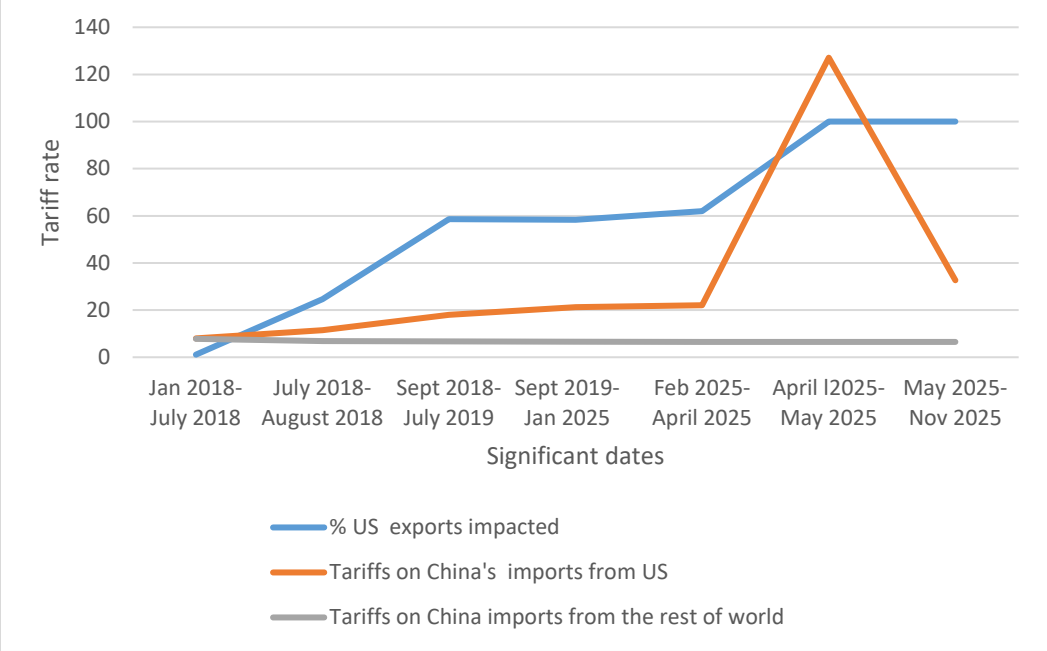
Source: US Census Bureau, 1999-2024.

Figure 4. US tariffs on China's exports (2018-2025)



Source: Comtrade, International Trade Center

Figure 5. China's tariffs on US exports (2018-2025)



Source: Comtrade, International Trade Center

Composition of Chinese exports

Expansion of Chinese exports over the last few decades has been associated with an equally important change in its export composition. Till

the mid-1990s, China was primarily an exporter of primary products and low technology manufactures such as textiles, apparel and footwear which accounted for a substantial part of its exports. China used its low-cost labor and domestic raw materials to produce a wide range of manufactured goods for the export market.

Significant policy changes took place during this time (mid-1990s and early 2000s) as the country was preparing for entry into the WTO. It undertook market and trade policy reforms to promote efficiency and improve resource allocation. During this time, China did not have internationally competitive industries (except textiles) and was not able to generate large exports. The government used textiles and a handful of exports to earn foreign currency to import modern machinery and equipment to improve its competitive position.[3] This helped China to produce competitive goods for the world market. The early phase of reforms aimed to upgrade industrial output by focusing on technologically advanced products. By the time it joined the WTO in 2001, there was already a marked decline in the exports of primary products and low-technology manufactures. However, despite this decline, exports of textiles and footwear continued and accounted for over 15% of the country's exports in 2015. During the same time, there were significant increases in exports of high technology products such as electrical and electronic products, etc. accounting for about 30% of the country's exports. Increases in the exports of such high technology products during the last two decades is partly attributed to the relocation of the labor-intensive part of high technology production from Japan, South Korea and Taiwan.[4]

At present, the technological composition of Chinese exports shows a stable trajectory where we observe a gradual decline in the exports of low-technology manufactures (textiles, garments and footwear) from about 34 % in the 1990s to about 16% in 2024. This is partly attributed to reduced demand for these products in many Western markets due to anti forced labor laws and other risks associated with sourcing from China. There is growth in exports of medium-technology manufactures (such as engines, motors, industrial machinery, pumps, ships) and high technology products, mainly electronic and electrical products.[5]

There is a structural shift in the country's comparative advantage from that of reliance on abundant and inexpensive labor (which still exists in some low technology industries such as textiles, footwear) to that of using modern technological infrastructure and capabilities (with accelerated accumulation of physical and human capital) to produce and export sophisticated products with more technological content. These changes in the country's

comparative advantages can be attributed to its industrial and technology policies as well as inflows of foreign direct investment.[6]

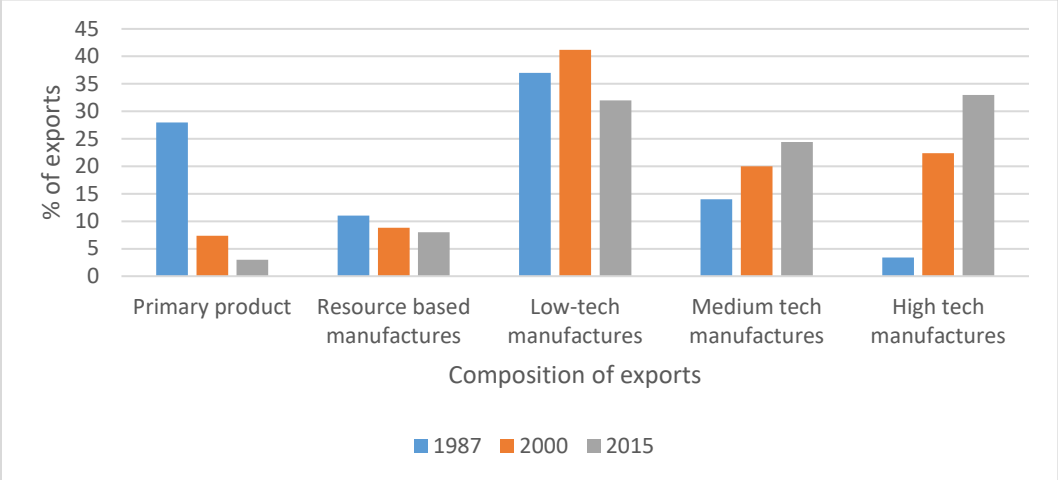
The combination of low costs and growing innovation capability has given rise to the emergence of formidable global competitors. The country is now a producer of globally competitive and technologically complex products: telecoms equipment, machine tools, computers, solar panels, high-speed rail, ships, satellites, heavy equipment and pharmaceuticals. In many of these industries, it has gained a significant market share. It is also making rapid strides in other emerging industries such as AI, quantum computing and biotechnology. Table 1 shows China's global share in advanced industries.

Table 1. China's global market shares in advanced industries (%) (1995-2020)

Industry	1995	2005	2015	2020
Base metals	6	15	38	45
Electrical equipment	4	13	35	37
Machinery & equipment	5	11	27	32
Chemicals	3	8	25	29
Computers & electronics	3	10	25	26
Fabricated metals	2	4	20	25
Motor vehicles	3	6	22	23
Pharmaceuticals	2	4	15	17
IT & information services	2	3	7	9

Source: Information Technology and Innovation Foundation[16]

Figure 6. Evolution in the composition of China's exports (1987-2015)



Primary products include fresh fruit, meat, rice, wood, oil, gas. *Resource-based manufactures* include agro/forest-based products such as prepared meat or fruits, beverages or wood

products as well as mineral-based products such as petroleum/rubber products, cement, glass. *Low-tech manufactures* include textiles and garments, footwear as well as pottery, furniture, toys, plastic products. *Medium-tech manufactures* include automotive products, process industries (chemicals, fertilizers, plastics, iron tubes as well as engineering industries (engines, motors, machinery, ships, watches). *High-tech industries* include electronic and electrical products such as data processing and telecommunications equipment, transistors, turbines as well as other high-tech manufactures such as pharmaceuticals, aerospace, and optical instruments.[17] Source: United Nations Commodity Trade Statistics Database, 2020.

Chinese competition and the US business sector

The explosive growth of China's exports over the past few decades has ignited the debate about the benefits of globalization. Import competition from China has adversely affected many US industries and resulted in job losses. The response of the US business sector to Chinese competition can be divided into three distinctive periods.

The first period which is often described as the time of the *"China shock" (2001-2011)* follows China's accession to the World Trade Organization (WTO) in 2001. During the same year, the US Congress also granted the president authority to extend permanent normal trade relations (PNTR) to China. This qualified China to receive the most-favored nation treatment for its exports to the US (regarding tariffs). This period was associated with a dramatic surge in Chinese exports, especially labor-intensive manufactures such as textiles, furniture, toys and electronics.

Even though there were aggregate welfare gains in terms of lower prices for US consumers, the China shock resulted in a loss of about 2 million US manufacturing jobs, driving down wages for workers and reducing their bargaining power. There were factory closures and loss of jobs in several industries during this period. Some firms such as Pillowtex (textiles), Bassett (furniture), Zenith (electronics) closed and exited the business, while others such as Mattel (Toys) shifted production to China. It is the period of US manufacturing decline and offshoring.

During this period, US firms generally embraced China as a manufacturing base and growth market, often prioritizing cost savings and market access over long-term strategic risks. The focus was on collaboration, expansion and integration with limited concern about geopolitical risk in later years. Some US firms even lobbied for more open trade with China, supported its WTO accession and viewed it as beneficial for global business. This period is associated with large relocations of manufacturing and supply chains to China. US firms also saw China as a large and growing market and aggressively sought to establish their presence (KFC, MacDonalds, GM). They underestimated the local competition and the risks to their intellectual property arising from legally mandated requirements of joint ventures with local companies. There was widespread imitation and counterfeiting of

consumer goods, lost sales, brand dilution and reputational damage. While some US businesses complained about China's currency policy (undervalued currency to promote exports), others expanded their supply chains to take advantage of China's low labor cost and a favorable exchange rate.

The second period (2012-2018) is associated with the emergence of Chinese technology and global brands and commencement of US China trade tensions. During this period, Chinese companies moved up the value chain, investing in R&D and developing global brands (Huawei, Lenovo). They began to lead in sectors such as telecommunications equipment, consumer electronics and e-commerce and embarked on aggressive global expansion in different parts of the world. By 2018, Chinese brands such as Huawei became a global leader in smart phones and telecoms equipment, surpassing Apple in the global smartphones market. Alibaba emerged as the global technology powerhouse in e-commerce, cloud computing, payments and entertainment. Tencent became one of the world's most valuable companies in gaming.

US industries began to raise concerns about intellectual property theft, forced technology transfers and unfair government subsidies to export industries. They responded with a mix of R&D, innovation and supply chain adjustments such as diversification of suppliers and partnerships to maintain market access. They increased legal actions against Chinese companies for alleged intellectual property (IP) theft and patent infringement (Apple Vs Huawei, Qualcomm Vs certain Chinese tech firms). They also lobbied the US government for stricter trade and investment regulations, citing national security and fair competition concerns. The US government began to take steps to respond to China's unfair business practices by imposing tariffs on hundreds of Chinese goods entering the US market (2018). It also introduced export controls on Chinese technology firms citing security concerns. Policies were introduced to increase scrutiny of Chinese investments and acquisitions of US technology firms via the Committee on foreign investment in the US (CFIUS). These measures led to Chinese retaliation in the form of tariffs imposed on US exports to China such as soybeans, pork, autos and wines. A wide range of non-tariff barriers were also implemented that made it difficult to access the Chinese market. This included measures such as intentional delays in customs clearance for goods, increased regulatory scrutiny of US firms operating in China, and arbitrary suspensions of business licenses and permits.

The trade war had a detrimental impact on US businesses. The resulting higher costs for US importers and manufacturers prompted supply chain shifts. Companies such as Apple, GoPro began to move production to Vietnam, India and other countries. US farmers lost Chinese export markets. The trade war disrupted global supply chains, created market volatility and

economic slowdowns. It also increased uncertainty and risk for US firms operating and sourcing from China.

The third period (2019-2025): During this period, US-China competition escalated, moving beyond trade to technology, supply chains and geopolitics. It is sometimes described as the advent of the new cold war. The Biden administration (2021-2024) maintained many of the tariffs imposed by President Trump, expanded technology export controls and introduced new investment screening measures. The Chips Act (2022) was passed to provide subsidies and incentives to boost domestic semi-conductor manufacturing, research and development. It aims to reduce dependence on foreign chip supply chains, enhance national security and maintain US leadership in advanced technology. This has resulted in reshoring of chip production thus reducing dependence on China regarding the most advanced parts of the semiconductor supply chain. These measures have also pushed China to increase investment in its own chip industry. In May 2025, the second Trump administration escalated the trade war with China (and other countries) raising baseline tariffs on Chinese imports into the US. China retaliated by imposing retaliatory tariffs on a range of US exports to China.

Table 2. US-China trade, timeline (2001-2025)

Period	Main features	Key events
2001-2011	✓ US companies move manufacturing to China, global supply chain expands. ✓ Increasing imports, job losses, loss of intellectual property, unfair trade practices and currency manipulation. ✓ Bilateral talks and disputes under WTO.	✓ China joins the WTO. ✓ Growth in bilateral trade but US trade deficit begins to grow rapidly.
2012-2018	✓ Trade war and imposition of tariffs on Chinese imports. ✓ Trade tensions, US complaints on issues relating to intellectual property, market access and government subsidies to export industries.	✓ Emergence of Chinese tech brands and rapid expansion. ✓ Emergence of a trade war.
2019-2025	✓ Escalation of tariffs resumes under Trump 2.0. ✓ Restrictions on advanced technology. ✓ Trade war, tech war, strategic rivalry. ✓ Supply chain shifts. ✓ Ongoing tensions. ✓ No comprehensive resolution.	✓ Trade tensions intensify. ✓ Biden administration maintains most of Trump's tariffs, broadens restrictions to technology, investment and supply chains.

US businesses responded to the ongoing trade tensions by: a) reshoring, i.e., bringing critical manufacturing (semiconductors, medical equipment etc.) back to the US, encouraged by government incentives and the need for supply chain resilience, b) adopting China + 1 strategy: moving parts of their supply chain out of China to other countries to reduce tariff exposure and geopolitical risk, c) developing cost management and pricing adjustments, d) lobbied for tariff relief, clear and transparent rules to reduce uncertainty and e) implemented technology, data security and compliance programs to avoid violating government restrictions.

The dynamic between US business operations, Chinese economic restrictions and the US trade deficit

US business operations in China

US multinationals like Apple, Intel play an important role in shaping US-China trade. They design products in the US, but their subsidiaries often manufacture and assemble them in China for the US market. These firms also outsource production to independent Chinese contract manufacturers that produce goods to US company specifications that are later exported to the US. Their actions tend to shape but also distort the US trade deficit. Even though the parent firm is American, the goods produced by the US Chinese subsidiary and /or contract manufacturer and exported to the US are recorded as Chinese exports (contribute to the US trade deficit with China). Most of the value is created by US designers and US owners of intellectual property. The profits are ultimately repatriated to US companies. For example, an iPhone assembled in China by a contract manufacturer (Foxconn) is designed in California, assembled in China with chips from the US, & South Korea, screens from Japan and S. Korea and various components from Europe, Taiwan and other countries. Even though the entire value of the device is recorded as export from China to the US (in trade statistics) the value added by Chinese assembly is often a fraction of the total value of the iPhone (estimated at 3-4% of its value)[7]. There are similar examples of Dell, GoPro cameras, Microsoft Xbox and Levi's Jeans where many of the products designed and owned by US firms are manufactured in China for the US and foreign markets. This practice inflates the US trade deficit with China, even though most of the value and profit will ultimately accrue to the US.

Economic and trade barriers for US businesses in China

US business operations have often been adversely impacted by China's economic and trade restrictions. They range from tariffs, quotas, licensing requirements, regulatory hurdles to outright bans. In many cases, US firms are required to obtain licenses or approvals to export high-technology goods,

food products or pharmaceuticals to China. These processes can be slow and opaque. Arbitrary product and food safety standards can be costly and act as a disguised restriction to trade. There are also export controls on rare earth elements (essential for electronics, defense and renewable energy), sensitive technologies, military and dual-use goods.

China's industrial plans and supporting policies offer substantial government guidance and resources to Chinese enterprises while actively seeking to limit access to the China market for imported goods, foreign manufacturers and service suppliers. The beneficiaries include state-owned enterprises and privately owned domestic firms. The Made in China 2025 is a long-term industrial strategy (that targets 10 strategic sectors) intended to develop indigenous technologies, and intellectual property through domestic efforts or foreign technology acquisition. The policy encourages the use of these technologies to produce goods and services that substitute for imports and capture an increasing share of the global market in these targeted industries. Such policies create and exacerbate market distortions and disrupt investment decisions by foreign firms. It also has the undesirable effect of increasing the market share of Chinese companies at the expense of US firms operating in these sectors. The government's commitment to a state-led, non-market approach to trade and economic development contributes to trade distortions, reduced market access to US firms and global supply chain disruptions thus exacerbating geopolitical tensions.

There are concerns about Chinese government policies and practices that adversely impact US firms in relation to intellectual property rights and technology transfer. A variety of policy tools have been used to pressure US companies to transfer critical technologies and IP to Chinese firms: a) directing or facilitating the acquisition of US companies and assets by Chinese firms, b) conducting or supporting cyber-enabled theft or unauthorized intrusions into US firms' commercial computer networks as well as c) taking measures that deprive US firms from setting market-based terms in technology licensing negotiations with Chinese companies.[8]

Under the Phase one agreement between China and the US (2020), China agreed to increase the protection and enforcement of intellectual property such as trade secrets, patents, trademarks and copyrights. However, serious inadequacies still exist in the protection and enforcement of such rights. There are incidences of state infiltration of computer systems of US firms and unlawful appropriation of companies' proprietary information to gain commercial advantages as well as bad faith trademark registrations (registration squatters- registering a mark to extort benefits from a genuine trademark owner who failed to register his/her mark in China). Online piracy exists on a large scale affecting a wide range of industries ranging from music,

motion pictures, software, books, journals and video games. Counterfeiting remains widespread and affects a wide range of US goods including chemicals and pharmaceutical products.

Given the size of the China market, prospects for US service suppliers must be promising. However, the US share of the services market remains well below its share of the global services market. The Chinese services market is quite restrictive because of discriminatory regulatory processes, informal bans on entry and expansion, and burdensome licensing and operating requirements that frustrates the efforts of US service providers to achieve their full market potential in China. Restrictive policies and practices exist in a wide range of sectors including cloud computing, telecommunications, film production and distribution, online video, legal and entertainment services.

Market access barriers, and regulatory hurdles limit the ability of US firms to sell goods and services in China thus contributing to the trade deficit. Both countries have recently imposed tariffs, which may have reduced the volume of trade but have not had a major impact on reducing the trade deficit. In response to US tariffs, China has also targeted US firms with investigations (antitrust, cybersecurity), consumer boycotts, delays in customs clearance and exclusion from government procurement.

Perspective of the US government and business sector on US-China trade

US Government Policy to US-China trade before Trump

Before the Trump administration, US government policy toward the US-China trade was characterized by engagement, negotiation and gradual pressure rather than aggressive tariffs or unilateral actions. The Clinton administration supported China's entry into the WTO and negotiated an agreement (1999) to provide normal trade relations to China in exchange for lower tariffs for US exports, particularly US agricultural products. Its focus was on integrating China into the world economy, encouraging structural reform (reduce state intervention and move China toward a more rule-based system). It preferred the use of multilateral institutions like the WTO than unilateral measures. During Clinton's presidency, the US trade deficit with China grew from $23 billion in 1993 to $84 billion in 2000. However, the administration prioritized long-term economic and strategic goals over addressing the trade deficit.

President George Bush continued the policy of economic engagement with China, supporting its integration into the global economy. It established the US-China Strategic Economic Dialogue to address issues of trade, currency manipulation, intellectual property protection and market access

for US products. It avoided the use of broad, punitive tariffs and preferred negotiation and use of the WTO dispute settlement process to challenge Chinese unfair trade practices such as subsidies and export restrictions. While the trade deficit was a growing concern (it grew from $83 billion in 2001 to $268 billion in 2008), the administration focused more on structural issues and explained the deficit as the outcome of macroeconomic imbalances such as US savings and investment rates and not just trade policy.

President Obama (2009-2017) continued the US approach of engagement and negotiation with China on trade. Like the policy of the previous administrations, it pursued engagement and dialogue, expanding the US-China strategic and economic dialogue. It negotiated a bilateral investment treaty to improve market access and investment protections and focused on structural issues such as intellectual property rights violations, forced technology transfers, currency policy and industrial overcapacity (steel, aluminum and depressed prices). The administration brought cases against China at the WTO, targeting unfair trade practices including subsidies, export restrictions and intellectual property violations and imposed anti-dumping and countervailing duties on specific Chinese products when unfair trade was established by the WTO and the International Trade Commission (tires, solar panels). The administration launched the "National Export Initiative (NEI)" in 2010 to double exports over five years (by the end of 2014) to support job creation and economy recovery after the financial crisis. The trade deficit narrowed somewhat but still remained high ($227 billion in 2009 to $347 billion in 2016). There was greater focus on fair competition, intellectual property protection and market access over reducing the deficit and the latter was viewed as a byproduct of broader macroeconomic factors.

Policy responses to US-China trade under Trump

During the previous two decades, the Chinese economy showed spectacular growth. Its economy doubled every seven years, and its GDP rose from 10% of US GDP in 2000 to 78% by 2021. Measured in terms of purchasing power parity, its economy is about 15% larger than that of the United States.[9]

The US, though initially impressed by China's rapid modernization grew increasingly disillusioned by its persistent disregard for free markets principles and rule of law. Its poor record in complying with its WTO commitments to liberalize its economy and its pursuance of mercantilist policies and practices led the Trump administration to change course and adopt a confrontational stance, prioritizing direct action to address Chinese unfair trade practices and the trade deficit. His "America first" trade policy emphasized the need to protect US industries and jobs and address the expanding US trade deficit with China.[10]

Efforts were made during the first few months of the new administration (Trump 1.0) to resolve outstanding issues through bilateral negotiations (bilateral meeting between the presidents, formation of Comprehensive Economic Dialogue as well as a 100-day plan to negotiate). The two sides failed to agree on most of the bilateral trade and economic issues that were important for the United States.

Tariffs were imposed on hundreds of US imports from China (2018) in response to what the US called unfair trade practices, theft of intellectual property and forced technology transfers. China retaliated with its own tariffs leading to a protracted trade war. In 2020, both countries signed a "Phase one" trade agreement in which China pledged to buy more US goods and make some reforms on intellectual property and technology transfer. Despite these measures, US trade deficit with China remained high (from $375 billion in 2017 to $419 in 2018). By 2020, imports from China had declined somewhat due to tariffs and the Covid pandemic ($310 billion in 2020). The administration also sought to bring manufacturing back to the US and reduce reliance on China (reshoring).

The Biden administration (2020-2024) pursed similar policies as Trump and engaged with close allies to counter China's trade and technology policies. It maintained most of Trump's tariffs and broadened restrictions on technology transfers, investments and supply chains. The Chips Act (2022) was passed to boost and increase self-reliance in domestic semi-conductor manufacturing.

The trade war continued under Trump II. The administration announced sweeping tariffs on most countries around the world, supposedly designed to bring US tariffs to "reciprocal" levels. For China, the announcement called for additional tariffs on top of the tariff hikes imposed in February 2025. China retaliated increasing its own tariffs on US imports, and restricting exports of critical minerals. Negotiations are underway between the two countries to narrow existing differences.

Business perspectives on Trump tariffs

Small businesses around the country are speaking about Trump tariffs. Many of them share stories of cancelled bookings, rising costs, stockpiling supplies and the fear of passing the costs of tariffs to consumers. They worry about the impact of added costs on their competitiveness and profitability. The founder of a healthcare company in Phoenix describes the devastating impact of tariffs on his firm: "I have an oral care company and all our empty containers such as tubes, bottles and tins as well as dental floss come from China. Currently, I have an order for 5,000 bamboo lip gloss tubes at port. The order cost me $5000. The tariff I must pay is $9983.00. Obviously, this

triples the cost of goods for this item, cutting into our profit in a huge way. I will have to take out a loan to pay this extra expense---something has to be done because this is unfairly punishing small business owners. It is also important to note that none of these items are made here in the US."[11] For many small businesses, there is a limited alternative to importing from China. Many of the products they buy cannot be sourced in the US and finding alternative suppliers outside China is a multiyear process. Reshoring the manufacturing to the US is often uneconomical (too costly and unprofitable). Many businesses stress the need for these policy shifts to occur with sufficient notice and for a structured plan for transitioning to domestic production.

The perspective of US multinationals (MNCs) based in China to the trade war is mixed. A recent survey finds that, even though most of the firms were impacted by the tariffs, only 22 percent of them voiced opposition and 7 percent resorted to the exit option. Older and bigger firms are more likely to voice their opposition to the trade war through industry associations and less likely to exit the China market. They have access to a range of tariff mitigation strategies as well as resources to lobby for tariff exclusions.[12]

The US-China Business Council (USCBC) that represents more than 270 American companies that do business in China recommends limiting the scope of tariffs to address specific US national security goals as well as global market challenges posed by China and support US global competitiveness. The Council suggests a narrow application of national security restrictions and a need to consult industry and US allies during the rulemaking process. A recent survey of US firms operating in China (by the American Chamber of Commerce in China) shows that tariffs are not likely to make them shift their production back to the US. Instead, they intend to either localize operations or shift some production to third countries. Many of the US firms in China expressed concerns about unfair treatment, particularly in relation to market access and public procurement. However, they underscored the adverse effects of escalating tariffs on US workers, consumers and companies in the name of saving them from unfair competition.[13]

Trade wars and Implications for US businesses

The US-China trade war has serious implications not only for firms in the two countries but also businesses operating in other nations thar are part of the global supply chain. Third country firms that are part of the supply chain are also impacted by the trade restrictions (foreign investors in China that export to the US market). Overall, the tariffs are likely to have the effect of restructuring existing value chains (the structure of lead firms and suppliers) away from China. Some production is likely to be moved to other countries not impacted by the tariffs.

Disrupted supply chains: Both countries have been strongly linked through global value chains due to low trade barriers and rules-based international trade order (WTO) which provided certainty and predictability. Now, the tide has turned in the other direction. The trade war and escalating tariffs have the effect of shifting US import demand away from China towards other countries in products impacted by tariffs. US firms that import intermediate goods from China such as Tesla are likely to be impacted by the tariffs that drive production cost. It is also likely to affect FDI and outsourcing decisions of MNCs.

Overall, the tariffs are likely to have the effect of restructuring existing value chains (the structure of lead firms and suppliers) away from China. High value added and capital-intensive manufacturing may move back to the US while other production is likely to be moved to third countries not impacted by the tariffs (supplier relocation).

There are challenges of switching to alternative suppliers in cases where there are few sourcing locations with comparable scale and scope. For example, in critical minerals, China not only controls large shares of these minerals but also has the infrastructure and scale that is not available in other countries. The major impediment is not in getting the minerals out of the ground but in refining where China is dominant. It has 90% of global refining capacity for critical minerals that are essential for high-tech devices, clean energy or advanced manufacturing[14,15]. The trade war has disrupted existing supply chains by interrupting the normal flow of goods and materials within the supply chain causing production delays, longer lead times, increased costs and inventory buildup in anticipation of further tariff increases.

Cost and market access: Tariffs lead to increases in the prices of imported goods and can adversely impact profitability. Firms absorb part or all of tariff increases to stay competitive, retain customers, honor contracts as well as protect their brand and market share, especially in price-sensitive products. Tariffs on raw materials and components increase the cost of production. Moreover, retaliatory tariffs by China reduce market access for certain products such as aircraft, electronics, autos, energy, industrial equipment and similar products. They also reduce demand for US agricultural products, which in turn could reduce demand for machinery manufactured in the US such as tractors, combines etc. The uncertainty created by the trade war could lead to declines in global trade and investment and lowers economic growth. Lower growth could lead to social and economic fragility, raising perceptions of risk in markets leading to higher costs of finance and lower enterprise formation.

Growth in tariff avoidance schemes: As the tariffs begin to affect trade with China, there is now a proliferation of tariff avoidance schemes. One is undervaluation, i.e., reporting a lower value for a product than the real transactional value paid for the merchandise to reduce the duty. Another is misclassification of an item. Different products have different tariff rates. Even though there are penalties associated with misclassification of goods, firms have used trained professionals to misclassify products to lower tariffs or avoid trade restrictions. There are also cases of transshipment of goods through other countries. Recent cases involve stuffed toys from China reloaded into new containers in Vietnam with new certificates of origin destined to the US market (marked as Vietnamese goods to reduce duties). There are also reported uses of DDP (Delivered duty paid) shipment terms where the Chinese company becomes responsible for shipment and payment of the duties at the US port. The US importer does not know about tax evasion. If the US government intends to pursue legal action, it will find a shell company with no actual presence in the US.

Conclusion and recommendations

Business strategies in the face of tariffs and supply chain volatility

Making reshoring decisions: Reshoring opportunities exist for manufacturing industries in higher-value, complex production with strict quality standards. US firms can shift the high value-added part of the supply chain located in China and other vulnerable countries to trade restrictions. Vertical integration or mergers and acquisitions of key suppliers will help manufacturers not only gain access to critical technology and know-how but also reduce the risk of tariff escalation if located in the US. Labor-intensive products can still be produced in countries that have free trade agreements with the US. US businesses must adopt a diversified risk adjusted sourcing strategy that balances cost, speed to market as well as geopolitical tensions. They can no longer rely on China for critical inputs.

Tariff mitigation tools: US businesses can utilize multiple tools to reduce the adverse effects of tariffs on their profitability.

a) *The role of free trade zones (FTZ) and bonded warehouses:* Free trade zones provide broader tariff reduction opportunities through manufacturing and re-exports while bonded warehouses help defer or eliminate duties on stored goods. Free trade zones are areas usually located in or near customs ports of entry and legally considered outside the customs territory of the United States. Foreign goods brought into these zones may be stored, manipulated or manufactured in the FTZ. This provides several advantages.

While conducting these operations, duty payments are delayed until products officially enter the US customs territory. There is no time limit as to the storage or handling of the merchandise within FTZ. Businesses can import a product subject to a high rate of duty and manipulate and manufacture it into a final product that is classified under a lower rate of duty when imported into the US domestic market (from the FTZ). Moreover, no duty is paid when the product is exported since the program was originally intended to promote US exports.

Bonded warehouses (US Customs approved warehouse facilities) also allow businesses to import goods without paying duty until the goods are removed and entered for consumption. Duty is not payable when goods under bond are exported or destroyed. Unlike FTZs, bonded warehouses may be established on user's facilities and only allow limited manipulation.

FTZs can be used by firms with complex supply chains, manufacturing operations or global distribution needs while bonded warehouses are ideal for firms that need flexible storage and cash flow management without extensive processing. There are also duty drawback programs which allow firms to claim refunds on tariffs paid for imported goods that are later exported.

b) *Supply chain realignment and advocacy:* Diversification of suppliers reduces dependency on countries that are subject to high tariffs. Leveraging free trade agreements may also help firms to source from countries with reduced or no tariffs. Strategic policy engagement allows firms to move from passive tariff takers to active policy shapers by lobbying or forming coalitions to influence trade agreements, secure exemptions or reduce tariff exposure.

c) *Financial and contractual strategies*: Hedging currency risks is one approach firms can use to mitigate the impact of tariffs and global trade volatility. Using common hedging instruments such as forward contracts, options or swaps, firms can stabilize costs and revenues and protect their profit margins. They can also renegotiate existing contracts with suppliers to offset the cost of the tariffs. Importers can also deploy customs valuation planning such as unbundling the dutiable part from the price of the import to reduce the customs duty or even consider transfer pricing strategies.

Policy responses to complement business strategies

Government incentives for reducing dependence on foreign technologies: Government incentives can be used to influence business decisions in favor

of locating advanced technologies and key suppliers in the US. This includes bolstering critical minerals and domestic processing capacity, green energy technologies and advanced manufacturing. The CHIPS and Science Act, 2022 is one example of a policy intended to increase self-reliance for critical inputs and strengthening US supply chain resilience. The Act authorizes government funding to boost domestic research and manufacturing of semiconductors in the US and provides subsidies for chip manufacturing in the US.

A need for appropriate tariff design: Tariffs are intended either to protect domestic industry and/or enhance government revenue. Current US tariff policy has been primarily intended to protect domestic industries from foreign competition and reshore US manufacturing to create jobs. Blanket tariffs on products that the US does not produce at home (coffee from Brazil, Cocoa from Ghana) or low-wage products in which the US has no comparative advantage (products such as apparel from Bangladesh or Lesotho) only serves to penalize US consumers and inconsistent with the long-held US policy of helping developing countries to move from aid dependence to self-sustaining growth through trade. Tariff policy must also guard against "tariff inversion" in which duties on imported components end up being higher than on finished goods, hurting domestic manufacturers. Moreover, it is important to note that some sectors are quite competitive on a global scale, run a trade surplus and do not require any government protection: chemicals, aerospace, defense products and services such as banking, IT, finance and insurance.

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