



# Comprehensive Analysis of the Impact of the China-US Free Trade Agreement

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**Abstract:** Sino-US trade is an important part of the current world economic and trade system with economic integration and diversified trade. While occupying more and more trade shares, it has also led to significant economic growth in both countries. Through the analysis of data trends in recent years, the just and smooth economic and trade cooperation between the two countries can promote the powerful operation of the entire world economy. Corresponding to this, frequent trade frictions between the two countries will make the powerful branches of the entire world economy lose vitality and enthusiasm. Therefore, being able to carry out stronger and deeper trade cooperation in the context of the ever-increasing cooperation in the world trade field is undoubtedly an important promotion for the development of China and the United States and the world's economic system.

**Keywords:** Tariff; Trade war; Enterprise.

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## 1. Description

The Sino-US trade relationship agreement was originally signed on July 1, 1979, and China and the United States were signed in Beijing. The two countries focused on the equality of trade relations and the fair treatment of the goods sold in the host country. The talks between the Chinese and US heads of state in the White House in 2006 promoted closer economic and trade exchanges between the two countries. After entering the 21st century, Sino-US trade has become more liberalized and diversified. After decades of development, both physical trade, such as tangible import and export trades such as energy materials, and technical trade, such as intangible import and export trades such as invention copyright, have increased rapidly in terms of scope and depth of trade. In a favorable environment for trade development, the two countries have also continuously issued more trade opportunities and economic and trade cooperation projects, and more multinational companies are committed to creating a more harmonious and complete Sino-US trade cooperation relationship. However, in recent years, Sino-US relations have been strained and the trade war has become increasingly fierce, which has seriously affected the development and treatment of enterprises in the two countries in the host country<sup>[1]</sup>.

During the writing of this thesis, according to an official statement from the two governments, the full text of the first-phase trade agreement between the United States and China was announced on January 15, 2020, and signed at the White House. In the latest agreement, the United States canceled its identification of China's currency manipulator. According to reports, the agreement will include some tariff reductions, China's increased purchases of US agricultural products,

and changes to intellectual property and technology rules. For example, China agreed to purchase more agricultural products from the United States, and allowed U.S. banks and credit cards to expand into the Chinese market; the United States canceled the original 15 December 2019 tariff increase of 156% on Chinese exports to the United States, starting in September. The tariffs and tax rates imposed on about US \$ 120 billion of Chinese goods have been reduced from 15% to 7.5%, and the 25% tariffs on US \$ 250 billion of Chinese goods have been maintained. China cancelled the retaliatory tariffs that would take effect on the same day, including a 25% tariff on US-made cars, which reflects the common demands of both sides to ease trade conflicts and reduce the intensity of the trade war. And in line with its efforts to deepen reform to improve its business environment and further open its doors, China has pledged to strengthen its intellectual property rights protection and to open-up its financial sector, which accompanied by the guarantee of strengthened supervision will attract more US companies and capital. There are still differences to be resolved, but the phase one deal marks a small, but positive step toward realizing the breadth and depth that Sino-US trade and economic cooperation could reach<sup>[2]</sup>.

## **2. Positive impact and trade barriers**

### **2.1. Positive impact**

The United States and China, two important economies in the world economy, have very different economic development backgrounds and economic systems. They are also countries with a wide geographical area. The large historical differences and natural environment differences between the two countries have created favorable conditions and prerequisites for economic and trade development in many ways. Such differences are largely complementary and mutually supportive in the field of trade. For example, the scientific and technological strength of the United States is in a leading position in the world, making technology trade a strong component of US export trade. However, China's increasing technology needs and emerging technology markets can meet the market requirements of the US technology trade in many ways. At the same time, China already has a large number of high-level technical talents studying in the United States. Therefore, US technology trade exports can be carried out more smoothly in China. On the Chinese side, the important location factor for China's economic development is the labor force. The vast labor market makes China's cheap labor force greatly reduce the cost of trade exports. China's relatively low-cost manufacturing can effectively make China occupy an advantageous position in trade competition. Insufficient human resources in the United States make the development of the manufacturing industry lack an important location factor, so importing Chinese manufacturing goods can simply solve this problem. Chinese-made products spread throughout the United States and even in every corner of the world, in addition to embodying the strength of China's manufacturing capabilities. However, on the other hand, the gradual acceleration of economic and trade cooperation has also caused the two countries' economic and trade frictions to continue to deepen<sup>[3]</sup>.

### **2.2. Trade barriers**

#### **2.2.1. Unreasonable trade structure**

China's imports and exports to the United States not only have huge surpluses each year, but China's exports are mainly low-tech primary products and daily necessities, such as fast-moving consumer goods such as clothes and shoes. However, with the advancement of Chinese technology, the degree of suppression of Chinese products in the US market is increasing day by day. For example, the Huawei case in recent years has been quite controversial.

#### **2.2.2. Increase in the balance of import and export trade**

China's huge external trade surplus (mainly the United States) is continuously accumulating and expanding. This not only makes China's foreign exchange reserves show a rapid and abnormal growth trend, but also causes the United States to have a huge trade deficit and fiscal growth while consuming abnormal growth deficit<sup>[4]</sup>. Currently, anti-dumping lawsuits against China are increasing every year.

### 2.2.3. China-US anti-dumping phenomenon intensifies

In order to prevent China's surge in exports to the United States due to its accession to the WTO, the United States has now begun to consider revising relevant anti-dumping and countervailing regulations. For a long time, the United States has tried to achieve a balance in acquiring markets, improving competitiveness and national security when implementing high-tech export control policies with China. In order to compete with the European Union, Japan and other countries, the United States had to relax its exports of some high-tech products, but in general still maintained the Cold War mentality and was deeply afraid that China's economic and military might pose a threat to it. In recent years, the U.S. government has urged Congress to pass a new "Export Management Law" to implement more effective export control methods for the country and protect the national security interests of the United States.

In 2018, China's total imports and exports of high-tech products accounted for about 30.7% of the total foreign trade. Industrial products accounted for more than 90% of exports, and high-tech products accounted for more than 30% of exports. This also made the United States monopolize global technology. The situation is "more and more uncommon." The United States has begun to use its national strength to defend the monopoly interests of the United States. This will largely separate the close relationship between China and the United States value chain, industrial chain and supply chain, and accelerate the global industrial sector. Restructuring and differentiation. From an enterprise perspective, fair and effective foreign trade has always been an economic development strategy that entrepreneurs are committed to building. Resolving Sino-U.S. trade disputes more effectively through relevant mechanisms, and better safeguarding the interests of domestic companies and their countries are the goals that every enterprise engaged in Sino-US trade is constantly pursuing.

## 3. Conclusion

The signing of a trade agreement and its potential future impacts are difficult to separate into a true "win or lose". In the short term, the signing of the first phase of the China-US trade agreement is of very constructive significance. The game of interests still has a long-term and complex nature, and the "partial decoupling" continues to develop. It can be foreseen that as China's economy moves towards high quality and the high-end of the global value chain, it may to a large extent lead to more regular and intense competition between China and the United States in the field of science and technology.

## Disclosure statement

The author declares no conflict of interest.

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