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Economic Impacts of the Possible China–US Trade War

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ABSTRACT

This article uses a multi-country global general equilibrium (GE) model to numerically simulate the effects of possible China–US trade wars. We introduce an endogenous trade imbalance structure with trade cost into the model which helps to explore both tariff and non-tariff trade war effects. Our simulation results show that China will be significantly hurt by the China–US trade war, but negative impacts are affordable. The US can gain under unilateral sanction measures to China, but will lose if China takes retaliation measures. Comparing the effects under mutual trade war, China will lose more than the US. Introducing non-tariff barrier trade wars will intensify the negative effects, and comparatively negative effects to China are larger than to the US. Mexico's involvement in trade war with the US will strengthen the negative effects and comparatively hurt the US more. Under non-cooperative and cooperative Nash bargaining equilibrium, the US can gain more than China in trade war negotiation,

which means the US has stronger bargaining power than China. Additionally, trade wars between China and the US will hurt most countries and the world especially in GDP and manufacturing employment, but benefit their welfare and trade.

KEY WORDS:

China | numerical general equilibrium | trade war, U.S.

JEL CLASSIFICATION:

F51 | C68 | F13

Notes

1. Data are from UN Comtrade database.

2. This border wall effects can be described as increased non-tariff barriers (NTB), and can use NTB change to explore this impact (Bergeijk 2014a, 2014b).

Additional information

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