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CURRENT STATE OF US - CHINA TRADE AND ECONOMIC RELATIONS AND ITS IMPACT ON THE GLOBAL ECONOMY

Buxorova Nodira
Master's Student, Diplomatic Academy under the University of

World Economy and Diplomacy, Republic of Uzbekistan

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Abstract: This article examines the current state of trade and economic relations between the United States and China (2025 - 2026) against the backdrop of repeated tariff escalations, a landmark Supreme Court ruling on tariff authority, and a fragile bilateral truce. Drawing on data from the IMF, the WTO, and specialized trade-policy trackers, the paper analyzes how the confrontation between the world's two largest economies is reshaping global trade volumes, growth forecasts, supply chains, and the multilateral trading system. The findings suggest that although both sides have avoided full decoupling, the accumulated uncertainty continues to weigh on global trade growth and to accelerate the diversification of supply chains away from bilateral dependence.

Keywords: US - China relations, trade war, tariffs, global economy, decoupling, supply chains, World Trade Organization.

Introduction

The United States and China, together accounting for roughly a third of global GDP, form the single most consequential bilateral economic relationship in the world economy. Since China's accession to the World Trade Organization in December 2001, bilateral trade expanded dramatically, with US goods imports from China rising from about $100 billion in 2001 to more than $400 billion by 2023, reflecting China's deep integration into global supply chains. Tariffs first imposed during President Trump's first term in 2018 were largely maintained by the Biden administration, and since January 2025 the relationship has entered a new phase of escalation, marked by successive rounds of tariffs, retaliatory export controls, and negotiated truces. This paper analyzes the current state of this relationship and assesses its wider implications for the global economy.

Main Body

1. The 2025 - 2026 tariff escalation cycle. The current cycle began in February 2025 with a 10% tariff on Chinese imports under the International Emergency Economic Powers Act (IEEPA), which was raised further in the following weeks. A partial truce reached in June 2025 held combined tariffs at 30%, but tensions resurfaced in October 2025 when China tightened export controls on rare-earth minerals critical to semiconductors and defense technology, prompting a US threat of a 100% additional tariff. A negotiated de-escalation in November 2025 capped the combined rate near 20%. A pivotal turn came on February 20, 2026, when the US Supreme Court ruled in Learning Resources v. Trump that the President could not use IEEPA as legal authority for tariffs, forcing the administration to rely instead on Section 122 (a 10% global baseline), Section 232 (25 - 50% duties on steel, aluminum, autos and semiconductors), and Section 301 (China-specific duties). Presidents Trump and Xi met in Beijing in May 2026 and preserved a fragile truce, yet in July 2026 the US Trade Representative imposed an additional 12.5% Section 301 tariff over forced-labour enforcement,

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pushing the effective average tariff on Chinese goods into the 35 - 50% range, according to USTR officials.

Date	Key development
Feb 2025	A 10% tariff on all imports from China takes effect under IEEPA; raised by a further 10% from March 4.
Jun 2025	Washington and Beijing agree to hold the "fentanyl" (20%) and "reciprocal" (10%) tariffs at a combined 30%, pausing further escalation for 60 days.
Oct 2025	The US threatens an additional 100% tariff from Nov 1 in response to China's export controls on rare-earth minerals; a truce is reached in November capping the combined rate near 20%.
Feb 2026	The US Supreme Court rules (Learning Resources v. Trump) that IEEPA cannot be used to impose tariffs; the administration pivots to Section 122 (10% global baseline) and existing Section 232/301 authorities.
May 2026	Presidents Trump and Xi meet in Beijing and maintain a fragile truce, while rare-earth restrictions and technology export controls remain unresolved.
Jul 2026	USTR imposes a further 12.5% Section 301 tariff on Chinese goods over forced-labour enforcement, raising the effective China tariff; combined US tariffs on China are estimated at 35 - 50%.

2. Impact on global trade flows. The World Trade Organization has repeatedly flagged the scale of bilateral trade disruption: WTO Director-General Ngozi Okonjo-Iweala warned in 2025 that merchandise trade between the US and China could fall by roughly four-fifths under prevailing tariff conditions, an outcome she described as tantamount to economic decoupling between the two countries. The WTO's own forecasts show world merchandise trade volume declining slightly in 2025, with North American exports projected to contract sharply, before the organization revised its 2026 global trade growth forecast down to around 0.5%, reflecting the delayed effects of tariff measures. Okonjo-Iweala has separately cautioned that a full decoupling of the two economies could reduce long-term global economic output by as much as 7%.

3. Macroeconomic consequences. According to the IMF's 2026 World Economic Outlook updates, global growth is projected at around 3.1% in 2026, a figure shaped both by trade-policy uncertainty and by other shocks affecting the world economy during the year. China's growth was revised in stages to roughly 4.4 - 4.5% for 2026, partly reflecting the fact that the Supreme Court's ruling lowered the effective tariff burden facing Chinese exporters even as it was quickly replaced by alternative tariff instruments. US growth, meanwhile, was projected at about 2.3% for 2026, supported by resilient domestic demand and continued technology-related investment even amid elevated trade costs for households, estimated at several hundred dollars per year in additional tax burden.

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4. Supply-chain reconfiguration and strategic leverage. China's use of rare-earth and critical-mineral export controls as a retaliatory instrument has underscored the strategic vulnerability of technology and defense supply chains that depend on a narrow set of Chinese suppliers. In response, firms and governments have accelerated diversification strategies — commonly described as "friend-shoring" or "China+1" — redirecting investment toward Southeast Asia, India, Mexico, and other manufacturing hubs. At the same time, WTO trade data point to a countervailing dynamic: rapid growth in trade of artificial-intelligence-enabling goods has partly offset weaker growth elsewhere, illustrating how technology competition is reshaping, rather than simply shrinking, global trade patterns.

5. Implications for the multilateral trading system and third countries. The unresolved dispute has placed additional strain on the rules-based multilateral trading system, with US officials reportedly weighing whether to revoke China's Permanent Normal Trade Relations status — a step that would mark a further departure from WTO norms. For third countries, the confrontation is a double-edged development: exporters that can substitute for restricted US - China trade flows may gain market share, while countries heavily dependent on either economy face heightened volatility in trade balances, exchange rates, and investment flows.

Conclusion

The US - China trade and economic relationship in 2025 - 2026 remains a story of managed confrontation rather than resolution. Repeated cycles of tariff escalation, legal challenge, and negotiated truce have not produced full decoupling, but they have left both economies operating under persistently elevated tariff walls and unresolved disputes over technology and critical minerals. For the global economy, the consequences are tangible: slower trade growth, elevated uncertainty, accelerated supply-chain diversification, and mounting pressure on the multilateral trading system. Sustaining global economic stability will require both powers to move from short-term truces toward a more durable framework for managing their economic competition, while other economies continue to adapt their trade and investment strategies to a more fragmented trading environment.

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