Lessons from U.S.-China Trade Relations

Author:Lorenzo Caliendo, Fernando Parro

Date:2022-08-01

Keyword:NA

Url:[click here](https://www.nber.org/papers/w30335)

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From:NEBR-working\_paper

We review theoretical and empirical work on the economic effects of the United States and China trade relations during the last decades. We first discuss the origins of the China shock, its measurement, and present methods used to study its economic effects on different outcomes. We then focus on the recent U.S.-China trade war. We discuss methods used to evaluate its effects, describe its economic effects, and analyze if this increase in trade protectionism reverted the effects of the China shock. The main lessons learned in this review are: (i) the aggregate gains from U.S.-China trade created winners and losers; (ii) China's trade expansion seems not to be the main cause of the decline in U.S. manufacturing employment during the same period; and (iii) the recent trade war generated welfare losses, had small employment effects, and was ineffective in reversing the distributional effects due to the China shock.