How Trump Can Win the U.S.-China Trade War: A Path Analysis Based on Industrial Chain Restructuring and Strategic Balance

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Abstract: The Trump administration's U.S.-China trade war, centered on "America First", sought to weaken China's economic advantages through tariffs and technological containment. However, its overreliance on unilateral strategies ultimately failed to achieve its objectives. This paper critiques the limitations of absolute advantage theory and examines the current state of U.S.-China supply chain interdependence. It argues that for the U.S. to secure long-term victory in the trade war, it must move beyond efficiency-centric thinking and adopt a balanced approach combining industrial chain localization, diversified supply chains, and strategic state intervention. The outcome of the trade war hinges not on short-term policy tools but on systemic solutions to structural issues like industrial hollowing-out and supply chain vulnerabilities.

***Keywords*:** U.S.-China trade war; Trump administration; Revised Absolute Advantage Theory; industrial chain restructuring; supply chain security

1. Introduction

The rise of the U.S.–China trade war[1] and the adoption of the "America First" strategy under the Trump administration have reshaped the global trade landscape. This shift marked a departure from multilateralism toward unilateral protectionism, with tariffs serving as the primary policy tool to address perceived economic and strategic imbalances.

However, existing news coverage and geopolitical negotiations suggest that tariff-based interventions have failed to deliver their intended outcomes. In particular, they have not ensured supply chain resilience or reduced long-term dependence on strategic imports. These shortcomings reveal a structural gap in current approaches to geoeconomics competition.

This study aims to propose a set of structural policy solutions that can help the United States rebalance the pursuit of economic efficiency with national security imperatives. By identifying alternative strategies beyond tariffs, the research contributes to ongoing debates on how to achieve sustainable economic resilience in an era of strategic rivalry.

The primary contribution of this study lies in its critical examination of the foundational assumptions underpinning the theory of absolute advantage. It compellingly argues for the necessity of maintaining comprehensive domestic production capabilities and resilient supply chains as essential conditions for addressing deeper challenges related to industrial ecosystem development and strategic autonomy. By reframing the discourse, this research moves beyond the narrow efficiency-driven interpretation of absolute advantage to a more holistic understanding of national industrial ecosystems as the bedrock of economic security and geopolitical influence in the twenty-first century. The policy implications presented herein emphasize that genuine economic resilience cannot be achieved through reactive trade instruments alone, but rather through proactive cultivation of complete and strategically aligned industrial value chains. This perspective signals a paradigmatic shift in how nations must approach economic security in an increasingly fragmented global trading environment.

2. Theoretical Dilemma: The Failure of Absolute Advantage Theory

Adam Smith's theory of absolute advantage promotes international specialization to achieve maximum efficiency, and it served as the intellectual foundation for the Trump administration's reshoring agenda. However, the theory has critical limitations. It assumes frictionless global markets, a condition increasingly invalidated by the use of tariffs and export controls that have disrupted supply chains and undermined efficiency through added political costs.

The theory's narrow economic focus proved particularly deficient by failing to account for strategic considerations regarding critical materials such as rare earth elements[2]and medical supplies[3]. In 2025, the full implementation of tariffs led to a short-term increase in price levels by 2.3%, resulting in an average annual loss of $3,800 per household consumer in 2024. The financial burden was disproportionately felt by households in the lower end of the income distribution, which experienced an average annual loss of $1,700.

These theoretical shortcomings manifested in acute supply chain disruptions within strategic sectors, most notably in semiconductor and solar industries. The empirical outcomes demonstrate the inherent dangers of applying eighteenth-

century economic principles to twenty-first-century geoeconomics conflicts, particularly when such principles disregard the complex interplay between economic efficiency and national security imperatives in an era of strategic competition.

3. Core Challenges: Supply Chain Dependence and Industrial Gaps

The Trump administration's trade war strategy encountered three fundamental structural challenges that ultimately undermined its effectiveness. First, a pronounced cost-efficiency paradox emerged from stark labor cost disparities, with U.S. manufacturing wages at $30/hour(Fradin) representing a 40% premium over Chinese labor costs[4], rendering reshoring initiatives economically unviable-as exemplified by the projected 25% cost increase for relocating iPhone production stateside.

Second, decades of global supply chain integration created critical dependencies, particularly in strategic sectors like semiconductors where despite maintaining design leadership through firms such as Intel and NVIDIA, the U.S. became reliant on East Asia for 69% of rare earth processing and advanced chip fabrication capacity[5]. Third, a fundamental temporal mismatch materialized between political imperatives and industrial realities, with even substantial investments like the $52 billion CHIPS Act proving inadequate to address immediate supply chain vulnerabilities given the 5-10year lead times required for establishing new semiconductor fabrication facilities. These structural constraints collectively demonstrate how deeply embedded global production networks resist rapid reconfiguration through unilateral policy measures.

4. Solutions: Rebuilding US Economic Resilience

Building on the critique of the foundational assumptions of absolute advantage theory, this study argues that only by maintaining a comprehensive system of domestic production and consumption can the United States achieve a sustainable advantage in the U.S.–China trade conflict. To enhance national resilience and strategic autonomy, the United States should adopt an integrated “trinity strategy” consisting of industrial localization, supply chain diversification, and proactive, state-led industrial policy. First, localizing critical industries entails implementing tiered subsidies, such as tax incentives for consumer goods and R&D grants for high-tech sectors like semiconductors and renewable energy. Establishing regional manufacturing hubs, particularly in areas like Arizona and Texas, paired with 5G and logistics upgrades can reinvigorate domestic production. Additionally, forming “secure supply chain clubs” with allies (e.g., Japan for materials and Korea for manufacturing) can mitigate strategic vulnerabilities.

Second, diversifying global supply chains through a “China+N” approach, relocating labor-intensive production to Southeast Asia (e.g., Vietnam, India), will reduce overdependence on any single country. Strategic stockpiling of critical inputs such as rare earths, lithium, and active pharmaceutical ingredients (APIs) for 3–5 years is essential. Simultaneously, digital tools like blockchain should be deployed for real-time monitoring of supply chain risks.

Third, state-led industrial policy can ensure steady access to low-margin essentials such as textiles and steel through public-private partnerships (PPPs), promoting resilience without excessive inefficiency.

A sustainable trade strategy requires balancing immediate defensive tools with long-term structural reforms. In the short term, tariffs and export controls can serve as deterrents, while targeted subsidies help mitigate the transitional costs of supply chain reconfiguration. Over the long term, legislative initiatives such as the CHIPS Act and the Inflation Reduction Act are essential to developing self-reliant industrial ecosystems. Internationally, aligning with key allies to establish global standards that reduce dependence on China is critical to ensuring both economic resilience and strategic security.

5. Conclusion

The failure of the Trump administration’s trade war highlights the theoretical and policy limitations of relying solely on tariffs. These approaches proved insufficient in addressing deeper structural vulnerabilities in supply chains and national economic security. The U.S. government should first strengthen and preserve a fundamental system of domestic production and consumption before engaging extensively in international trade.

In this context, a revised understanding of the theory of absolute advantage becomes relevant. Rather than assuming that countries can specialize regardless of their domestic economic foundations, this updated view suggests that each country should first establish a comprehensive and resilient system of production and consumption. Only then should it focus on producing and exporting goods for which it holds an absolute advantage in labor productivity, while importing those in which it is at an absolute disadvantage. This approach allows international trade to become a platform for mutual gain, rather than a source of vulnerability.

Moving forward, U.S. trade policy should prioritize long-term structural reforms over short-term confrontation, emphasizing investment in innovation, industrial capacity, and strategic alliances. Redefining national competitiveness in an

increasingly deglobalized world requires a holistic approach that integrates economic efficiency with security imperatives and resilience-building strategies.

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