

Trade War

China's Tit-for-Tat Tariffs



Image: freepik

China is responding to Trump's tariffs with a canopy of carefully calibrated measures and maneuvers, intended to cause maximum hurt with minimum coverage but sufficiently mild to allow room for more cordial negotiations in future.

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As forewarned before his inaugural, Donald Trump is imposing 25% tariffs on Mexico and Canada and 20% tariffs on China, both allegedly over the importation of Fentanyl drugs and illegal immigrants.

Trump touts the universal virtue of tariffs, backed by America's unrivaled global power, thinking it could well substitute income tax.

Apparent tariff obsession aside, Trump has been consistent in his unhappiness with America's trade deficits. In 2024, the United States received the most imports from China, Mexico, and Canada, each exporting more than \$400 bn of goods into the US,

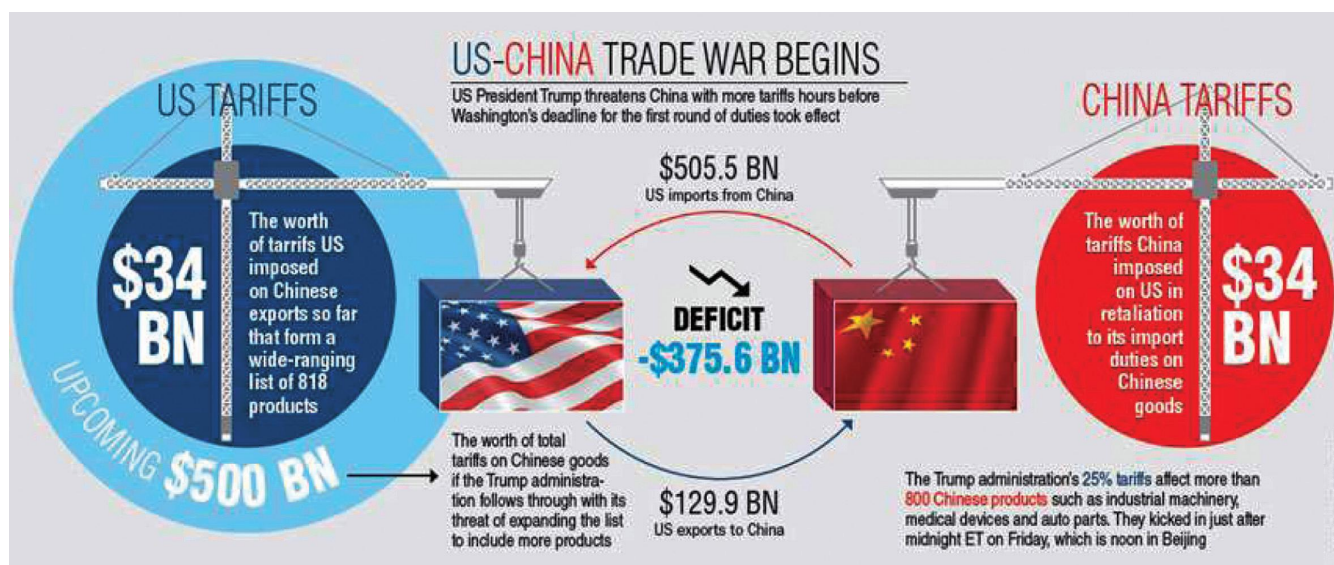
vastly more than America's reciprocal exports to these countries, respectively.

However, Trump focuses only on trade in goods, not services. In the same year that the US operated a trade deficit in goods of more than \$1.2 tn with the rest of the world, it also gained a surplus of nearly \$300 bn in services.

Trump seems fixated on the absolute trade balance (only in goods) with each of America's trading partners. He ignores the universal concept that trade deficits with one trading partner could be offset by a trade surplus with another country. Similarly, trade deficits in goods can be offset by trade surpluses in services so that a country's overall trade balance can be achieved.

What is more, Trump thinks that America has been short-changed for too long by other countries' tariffs, subsidies, and other "unfair" practices. He is now directing his advisers to develop "reciprocal tariffs," restoring parity of treatment by ALL of America's trading partners.

Trump's protectionist intentions are laid bare as he recently ordered a 25% import tax on ALL steel and aluminum entering the US, ending previous exemptions for allies, including Canada and the European Union, saying that these measures would boost America's domestic production. He also plans



to roll out tariffs on imported cars around April 2. All in all, Trump prides himself on being a “tariff czar,” able to extract concessions or advantages from friends and foes alike.

China's response

China has gone through trade war traumas during Trump's first term as well as during Joe Biden's interregnum, including technological strangleholds and economic segregation in the name of “small-yard-with-a-high-fence” “de-risking.”

Before Trump re-entered the White House, China has vigorously been preparing itself for ongoing trade wars and other pushback, as China has long been firmly branded with bipartisan consensus as an “existential threat” to American global dominance and other vital interests. China is responding to Trump's tariffs with a canopy of carefully calibrated measures and maneuvers.

First, China retaliated with 15% duties on coal and liquefied natural gas products and a 10% tariff on crude oil, agricultural machinery, and large-engine cars imported from the US. Beijing also launched an anti-monopoly investigation into Google and added PVH, the owner of US fashion brands Tommy Hilfiger and Calvin Klein, to its “unreliable entity” list. China also restricted exports of five rare metals used as key components in the defense and clean energy industries.

These are intended to cause, relatively speaking, maximum hurt with minimum coverage but sufficiently mild to allow room for more cordial negotiations later on, in light of Trump's recent overtures of directly speaking to President Xi Jinping before his inaugural and more recently after re-occupying the White House. Cognizance is also



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taken of Trump's declared intention to visit Beijing within 100 days, perhaps wanting to strike a broader, if not a Grand, bargain.

Second, Beijing is taking America's tariffs to the World Trade Organization (WTO). China is fully aware that the US no longer thinks much of this global trade institution, having crippled its dispute-resolution mechanism by re-

fusing to appoint judges. However, the move to file a complaint to the WTO is intended to signal China's stance in supporting multilateral rule-based institutions and a riposte to unilateralism.

Third, at the Munich Security Conference on February 14, China's Foreign Minister and State Councilor Wang Yi warned of China's resolute response to US tariff bullying but expressed confidence in the outlook of China-US relations. This safeguards China's national dignity but acknowledges President Trump's possible olive branch.

Fourth, China has doubled down on trade with the Global South. According to a report of January 14, 2025 in the *Asia Times*:

“China's exports grew 10.7% year-on-year in December, outpacing November's 6.7% gain and beating analyst forecast of 7.3% growth.”

Restocking in anticipation of tariffs accounted for a small part of the gain, but the main driver of Chinese exports remains the Global South, especially to countries where China is building infrastructure. China's exports to the Global South exceeded its shipments to all developed markets in 2023, and the shift toward the developing world continues.

Exports to the US now comprise just 15% of China's total shipments, down from 20% in 2018. In December, China sold \$137 bn in goods to the Global

South, compared with just \$108 bn to all developed markets.”

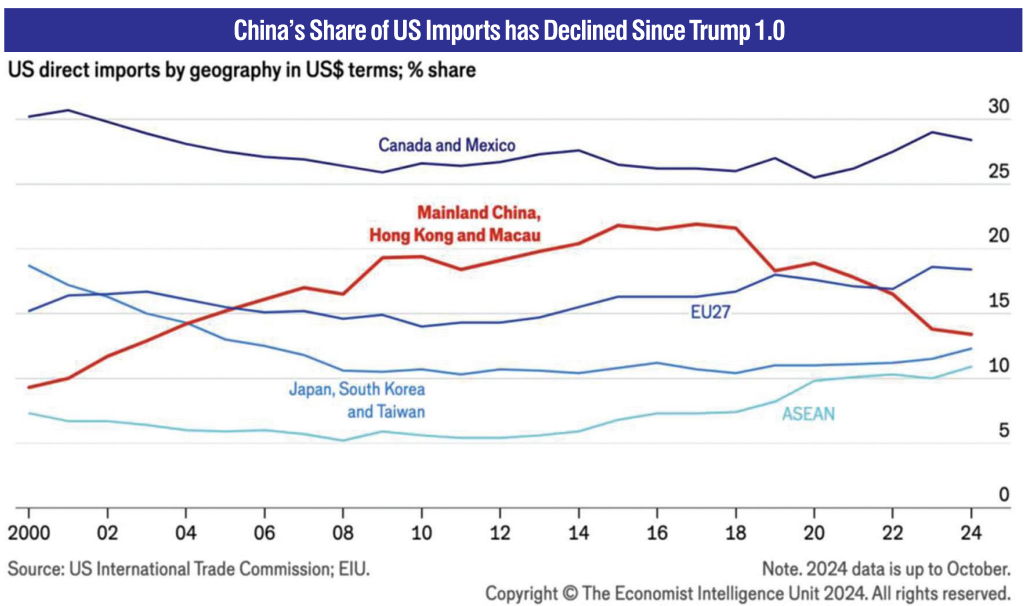
Fifth, as Trump’s tariffs hit China’s exporters, counterparts in many countries not subject to these tariffs are taking advantage to replace them. However, so globally embedded in China’s global supply and value chains that many key minerals, spare parts, and components remain supplied by or made in China, exporting too many substitute exporters through China’s predominant container ports. Seven of the world’s largest container ports are located in China, Hong Kong included. Through fractionalizing products’ supply and value chains, China remains embedded in many of America’s substitute imports.

Sixth, China has long graduated from making things for foreign brands (“Made in China”) to growing its brands and products, such as Chinese global giants like Alibaba, Tencent, and TikTok (“Created by China”), and to “Owned by China,” which has seen many Chinese businesses set up in for-

eign countries manufacturing for host countries’ exports. A case in point is Geely-owned LEVC, a Coventry-based manufacturing outfit producing an electric vehicle version of London’s famous black cabs (taxis). With possible help from Elon Musk of Tesla fame, who has a major manufacturing presence in China, Chinese vehicle conglomerates may well locate some vehicle productions in the US in response to Trump’s call for bringing jobs home. Seventh, China monopolies 80%-100% of many

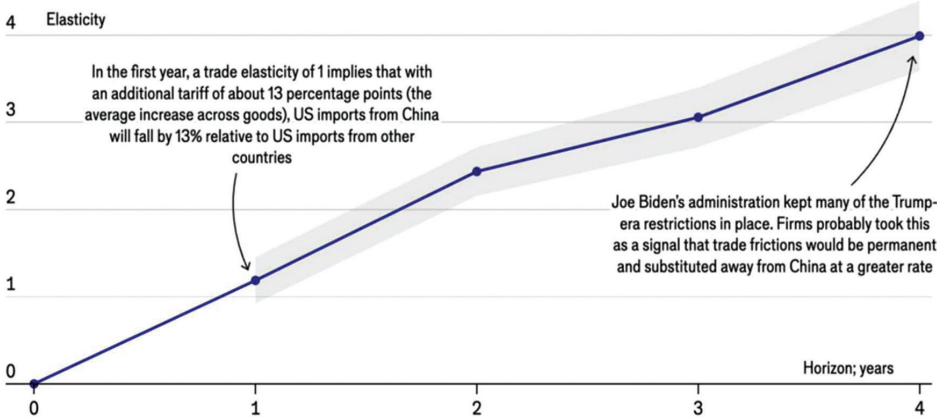
critical minerals essential for new energy projects, including renewables, according to a report on CAPX, a media platform for the London-based Center for Policy Studies. Tariffs or not, these essential materials will find their way into many products. Eighth, China has become extensively self-reliant in cutting-edge technologies. Witness its ability to build from scratch and operate its own Tiangong Space Station, its successful space mission bringing back samples from the far side of the moon, and now a “Sputnik Moment” of unveiling DeepSeek, changing the game on AI. China’s technological innovations will continue to come up with a variety of products, parts, and components which no ‘whack-a-mole’ tariffs are likely to eliminate.

Last but not least, by defending the rule-based international trading system against Trump’s “might-is-right” unilateralism, China stands to gain global respect and gravitas. This advantage would boost China’s credibility in any future negotiations to reform the world’s trading systems, including the WTO. Such reform is becoming inevitable, regardless of Trump, as a result of game-changing 21st-century technologies and business models. ■



US Consumers Only Adjusted Gradually to the First Trade War

Elasticity of substitution for US imports from China and the rest of the world since 2017



Source: Haberhorn, Hoang, Lewis, Mix, and Moore (2024); EIU.

Note. Elasticity denotes how much consumers and firms substitute from Chinese to other countries’ goods when tariffs increase. The higher the elasticity, the greater the sensitivity to tariffs on Chinese goods. The plots show estimated trade elasticities for the first four years since the 2017 trade war. 95% confidence interval for point estimates are shown.

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