Trade War

China Fights Back


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Beijing continues to hold out prospects for equal-footing negotiations with the US, however, it doesn't want to appear the weaker party by making the first move.

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The tit-for-tat tariffs between the world's two largest economies have intensified: United States tariffs on Chinese imports have accumulated to 245%—a 125% reciprocal tariff, a 20% tariff to address the fentanyl crisis, and Section 301 tariffs on specific goods, between 7.5% and 100%, according to a report in Yahoo Finance of April 17, 2025. In response, Beijing has raised retaliatory tariffs on US goods from 84% to 125%, saying it will not respond to any further US tariff hikes. These numbers are prohibitive enough for any trade. Further tussling over numbers won't make much sense in reality.

In addition to retaliatory tariffs, China's non-tariff countermeasures include new export restrictions on rare earth materials, adding US defense and tech firms to the Export Control List and Unreliable Entity List, anti-dumping, antitrust and anti-circumvention investigations on certain US goods, import suspension of certain US agricultural products, and targeted tariffs on US energy, agriculture and industrial goods. China also filed formal complaints with the World Trade Organization (WTO), challenging the legality of the US tariff measures.

As I outlined in my April 14 research essay for Rome-based World Geostrategic Insights -*Trump's Grand Strategy to Reshape the World: Would it Succeed?*, behind the smoke and mirrors of global tariffs, there is the big picture of President Donald Trump's grand design to reshape the world to "Make America Great Again".

Trump is trying no less than turning the table completely on America's most important challenges: its perennial trade and budget deficits, its relative scarcity of key minerals for reindustrialization and power projection, its shrunk global shipping and shipbuilding capacities, and its receding scope for exercising its "exorbitant privilege" of issuing US treasury debt to finance America's on-

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going prosperity without breaking the bank or the economy.

Trump's "Grand Strategy" comes with coercive tactics in three broad waves. To grab resources, think Greenland, Canada, and Ukraine. The entire Western Hemisphere as America's "homeland" would be a super-continental fortress, with a resource cornucopia, surrounded by two vast oceans, to make America Great Again.

Trump wants to use overwhelming, no-holds-barred tariffs to extract maximum America First gains from any negotiations. Some 75 nations are already lining up to negotiate, and, to quote Trump, are "kissing my a**". Dealing with each counterpart individually rather than collectively benefits the much stronger side, i.e., the US and hence his distaste for multilateral institutions like the WTO, which he has castrated by paralysing its dispute resolution mechanism.

Tariffs, however, represent only the first wave of Trump's Grand Strategy to eliminate America's trade deficits, to bring in massive revenue to reduce America's budget deficit, possibly obviating the need for income tax, and to force the return of manufacturing, shipping, and ship-building to the US.

The second wave is coming thick and fast. Prohibitive levies and fees are being imposed under rules and regulations drawn up by the United States Trade Representative (USTR), targeting China-made or registered ships calling on "American ports", which could be expanded to cover ports owned by American investments. These prohibitive levies on China's ships include up to $1 mn per port entrance, or up to $1,000 per net ton of the vessel's capacity, ranging from $500,000 to $1.5 mn per vessel entrance. Additional fees are proposed for vessels ordered from Chinese shipyards, ranging from $500,000 to $1 mn per vessel entrance. Refunds are proposed of up to $1 mn per entry for operators using US-built vessels instead.


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The idea is to starve China's shipping and shipbuilding industries of financial oxygen, to bring shipbuilding and shipping back to the US, and to restore America's maritime dominance.

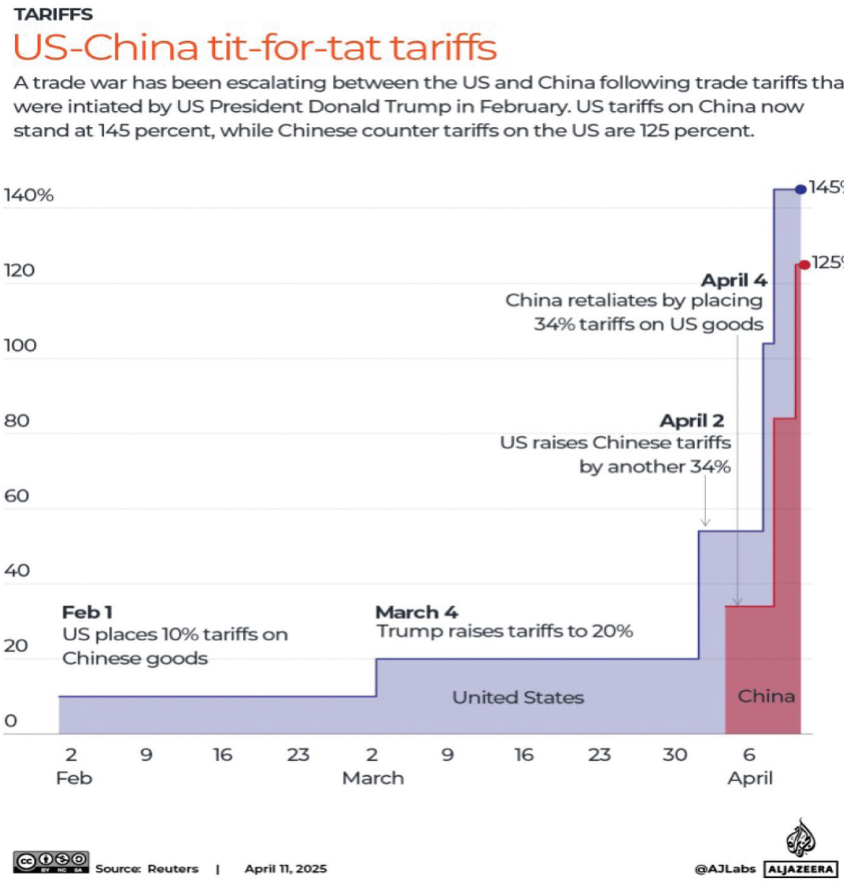
A third wave being mooted is a "Mar-a-Largo Accord", harking back to the Plaza Accord of 1985, which forced sustained appreciation of the Japanese yen to reduce America's trade deficits with Japan, resulting in Japan's "Lost Decade" of economic stagnation from 1991-2005.

Apart from likely devaluation of the dollar, the Mar-a-Lago Accord being finalized is designed to replace all US Treasuries with a 100-year Treasury Bill. Existing US treasuries, or treasury bonds, pay interest over their term. Century bonds don't and are only returned with an increased value once they mature after 50 or 100 years. The resultant dramatically eliminated annual interest burden will enormously improve America's fiscal position, calculated to usher in a new American "Golden Age".

Grandiose wishful thinking aside, Trump's Grand Strategy will result in global seismic financial, socioeconomic, and supply chain upheavals. Already, the world's bond market was thrown into a spasm by Trump's sky-high tariffs. Billionaire Ray Dalio, Founder of Bridgewater Associates, thinks that Trump's tariff war could spark 'something worse' than a recession, harking back to America's Great Depression in the '30s in the wake of President Hoover's massive Smoot-Hawley Tariff Act.

US manufacturing has fallen from 21-25% of gross domestic product (GDP) in the 1950s to about 10% today. US manufacturing value-added, as measured in constant 2015 dollars, is 15.1 % of global manufacturing value-added, putting it second to but half of China's at 31%. Decades of outsourcing non-competitive American production of daily necessities, consumer products, as well as shipbuilding, have hollowed out capacities of these manufacturing sectors, including heavy equipment, skills, and other production supply chain infrastructure.

A visit to America's supermarkets would reveal the ubiquity of China-made products. Even though not marked "Made in China", embedded in them are Chinese materials, parts, components, as well as logistics, as seven out of the world's top eleven ports



are located in China (Hong Kong included). Punitive tariffs and shipping levies alone are unlikely to turn the tide for America's reindustrialization anytime soon, robotics and artificial intelligence (AI)-assisted manufacturing notwithstanding. All told, compared with alternative production locations across the globe, the huge differential in American production costs and supply chain efficiency remains prohibitive.

As of now, only one out of one thousand ships worldwide is made in the US. This is threatening the strength of the US Navy, among other challenges. However, the hurdle of reshoring shipbuilding to America looks formidable. According to Lloyd's List, seven out of the top 10 individual shipyards globally are based in China, supported by a fully-integrated infrastructure of heavy installations, including giant cranes and a comprehensive suite of engineering and other human resources.

The US measures against China-built ships could ban 60% of the global fleet, according to Hellenic Shipping News of March 3, 2025, begging the question how American-controlled ports could survive financially.

In any case, Hong Kong C.K. Hutchison's portfolio of 43 ports in 23 countries across the globe is part and parcel of China's global Belt and Road Initiative connectivity. To Beijing, these ports' sale to a foreign entity, whether American BlackRock or Italian MSC shipping conglomerate, poses a potential national security risk. As of now, the sale remains subjudice under Beijing's formal investigation. It remains to be seen whether, when push comes to shove, the Panama portion alone of the global portfolio could be a negotiating pawn between Beijing and Washington in an ultimate reset of US-China bilateral relations.

As for a "Mar-a-Largo Accord" with 100-year US Treasuries, it seems to defy logic why nations still want to lock their hard-earned wealth in non-interest-paying US instruments for as long as half or a full century with a capricious and less trustful US, known for freezing Russia's foreign exchange reserves, applying coercive tariffs to allies, and wanting to take over Greenland by force if necessary.

What is more, Trump's imperialist bullying across the globe, his withdrawal from the Paris Agreement on Climate Change as well as the World Health Organization, his obstruction of the WTO, and open flouting of internationally-accepted rules and norms in favour of America First rules of the jungle, all add up to abrogating America's leadership of the "liberal world order" founded and guarded by the US after the Second World War.

The whole world has benefited from this "liberal world order", not least the US itself as well as China. Now the world is witnessing a curious situation whereby America is destroying it while the order's perceived and vilified challenger, China, is trying to defend it!

Trade with the US only accounts for 2.5% of China's GDP. China's exports to the US have declined from 19.2% of total exports in 2018 to 14.7% in 2024. Nevertheless, this trade and tariff war could potentially slow China's GDP growth by as much as 1.5 to 2 percentage points, according to Deng Yuwen, a Chinese Scholar and Writer in Foreign Policy. Beijing's earlier target of 5% growth for 2025 looks unlikely to be achieved.

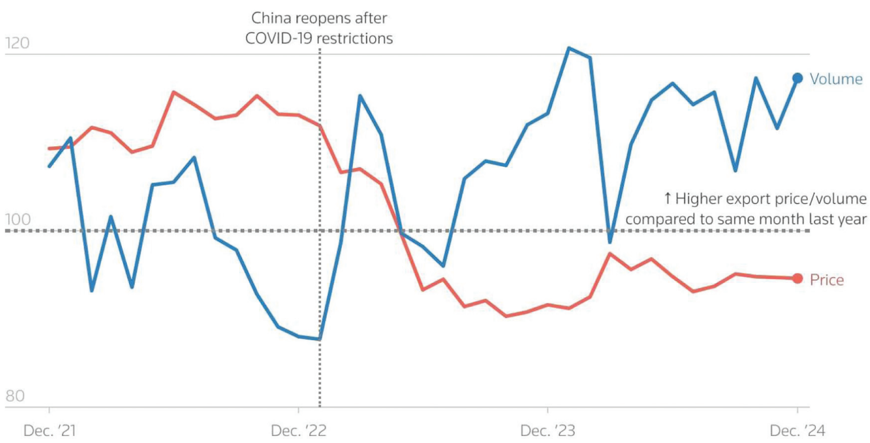
Having learnt from Trump's first term, however, Beijing has been much better prepared for the current trauma. President Xi Jinping has long reminded the nation that China is facing 'unprecedented challenges and opportunities not seen in a hundred years".

Ever since Trump won the White House for his first term, China has been following President Jinping's prescient directive to batten down the hatches, focusing on self-reliance in innovation and technology, pivoting its "duo-circulation" economy toward services and consumption, and diversifying trade with the Global South. The challenges of property, local government indebtedness and financing for small- and medium-sized enterprises are now under

Margin Squeeze

Even before new tariff increases on goods exported to the U.S., Chinese suppliers were facing price pressures with data showing overall export volumes outpacing prices

China export volume index and export price index



Note: Same month of last year = 100.

control, with an improving momentum. This is reflected in international and financial institutions' revised positive forecasts of China's economy, now being regarded comparatively as a bulwark against global instabilities. Jinping's prescience is bearing fruit. Witness the emergence of China's DeepSeek, revolutionizing AI dynamics. China's service sector now accounts for 55% of its GDP, surpassing the value-added industrial sector at 40%.

According to Zhu Min, former deputy-managing director of the International Monetary Fund and former vice-president of the People's Bank of China, in face of growing global uncertainties, China is now focusing on three new growth engines: boosting domestic consumption, advanced manufacturing, and driving the world's green transition.

With greater policy support, including better healthcare, education, and family services, China's sluggish consumption market, representing 48% of GDP (compared with 81% of America's GDP), is increasingly pivoting towards "service consumption", including wellness, education and entertainment, thanks to a rising trend of "experience-based holidays" of the Z-generation and a burgeoning 'silver economy" of better-off retirees. By aiming for a 1% increase in consumption's share of GDP each year, China seeks to raise it to 58% over the next decade, supporting sustainable domestic demand.

According to a *South China Morning Post* report of March 12, 2025, China will lead the world in advanced manufacturing by 2030, citing data from Dublin-based Grand View Research. China's global advanced manufacturing market revenues are estimated to grow at an annual rate of 18.2% to reach $158.2 bn by 2030, compared with the US' corresponding 13.6% per year to reach $152.1 bn by 2030. According to a report in the *Washington Post* of March 3, 2025, China rules the world in every aspect of clean energy. China has pulled miles ahead of the US and the European Union in almost every key area, from electric vehicles (EVs) to solar panels, wind power, and EVs. The gap with the US is set to widen with Trump's pivot back to fossil fuels under his mantra "drill, baby, drill!".

In most green technologies and components, China makes up more than half of global production output, and that share grew from 2021 to 2023. China dominated the supply chain for raw materials needed for the green revolution. It is by far the largest producer of most processed critical minerals such as cobalt, nickel and graphite, essential for making batteries and solar panels. It also produced 92% of all processed rare earth elements, the hard-to-extract metals used widely in high-tech manufacturing. Clean tech is also fueling the Chinese economy, making up more than 10% of China's growth last year, a record contribution.

Overall, in face of mounting tariffs, China's economy is not out of the woods yet. But slowing economy notwithstanding, China has plenty of economic oomph, with the rallying support of its people increasingly viewing with distaste their once-admired US turning into a rogue state, if not alarmed at the growing prospects of its self-inflicted implosion.

China is fighting back Trump's relentless bullying, though not without a bloody nose. But Beijing is confident of the economy's innate strengths to counter the waves of coercion in Trump's Grand Strategy, which are as likely to upend the world order as America's own economic and social stability. China is also enjoying relatively greater international respect and rapport as a more consistent and less untrustworthy superpower whom many countries can do business with, ideological and other differences notwithstanding, and hence, a recent beeline of leaders to Beijing from countries across the globe, if only to hedge their bets.

In any case, Trump's constant touting of good prospects for negotiated deals, including for China, suggests that all the coercion and bullying are a ploy to bring countries to their knees at a disadvantage for negotiations.

That's also a key reason why Beijing continues to hold out prospects for equal-footing negotiations but doesn't want to appear the weaker party by making the first move. In any case, the two sides are beginning to talk, if informally. It remains to be seen how mutual trust can be built to allow sufficient compromise on key trade, shipping, investment, market access, technology, energy, security, and geopolitical differences, and more importantly, to what extent China can satisfy Trump's Grand Strategy of Making America Great Again. ■

Reference # 20M-2025-05-12-01