Economic QuickView

Chinese Mainland: US Trade Policies on China and Their Impacts

- The Chinese Mainland's exports remained robust, despite the trade tensions of 2018–2019.
- The new US tariffs imposed in February 2025 are likely to have modest impacts on the Chinese Mainland's exports and GDP growth.
- The Mainland authorities are ready to implement additional stimulus measures and reforms to strengthen domestic demand amid a complex external environment.

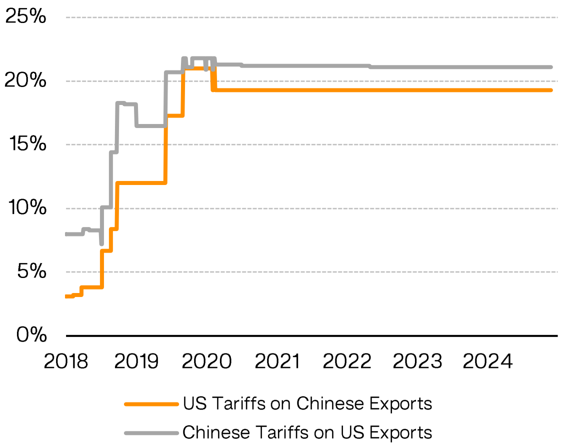
US-China trade conflicts escalated significantly under the 1st Trump presidency. Before we move onto the current episode, let's first review a bit of history on US tariffs under Trump's 1st term. In August 2017, the US initiated a Section 301 investigation into Chinese trade practices, with an emphasis on intellectual property issues and technology transfers. This led to the imposition of four tariff lists on Chinese goods, leading to approximately USD 370 billion of Chinese Mainland imports being subject to additional tariffs from 2018-2019. The Peterson Institute for International Economics (PIIE) estimated that the trade-weighted average US tariff rate on Chinese Mainland imports rose from 3.1% before January 2018 to 19.3% by April 2023, covering about 66.4% of Mainland Chinese's exports to the US.

Four Lists of US Tariffs imposed under 1st Trump presidency

List	Chinese imports affected (USD billion)	Implementation date	Tariff rate
1	34	6 July, 2018	25%
2	16	23 August, 2018	25%
3	200	24 September, 2018	10%
		10 May, 2019	Increased to 25%
4	120	1 September, 2019	15%
		14 February, 2020	Decreased to 7.5%

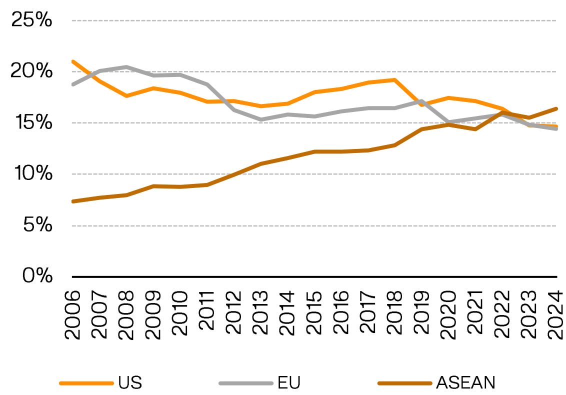
The Phase One Trade Agreement avoided a further escalation of tariff increases. On 15 January 2020, China and the US signed a Phase One Trade Agreement. The agreement aimed to strengthen intellectual property protection and enforcement, prohibit forced technology transfers, and secure a commitment from China to increase its purchases of US goods and services by at least USD 200 billion in 2020 and 2021. Furthermore, it expanded market access for US financial services and established a dispute resolution mechanism, along with commitments from both countries to refrain from competitive devaluation and not to target exchange rates for competitive purposes. However, the COVID-19 pandemic significantly disrupted supply chains and reduced demand, undermining China's ability to meet these purchase commitments. Additionally, subsequent changes in the US administration from Trump to Biden further influenced a review of the agreement, which eventually expired on 31 December 2021.

US-China Trade War Tariffs



Source: Bloomberg

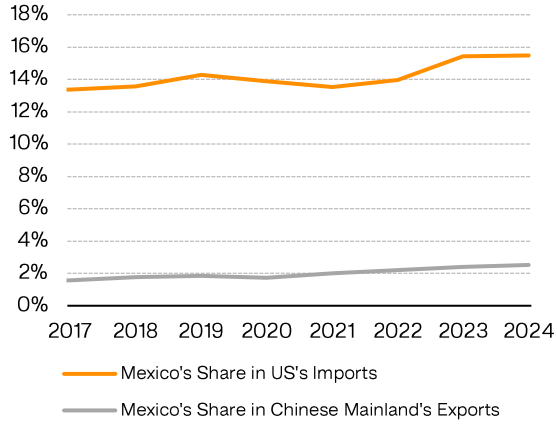
Share of Chinese Mainland's Exports by Destinations



Source: CEIC

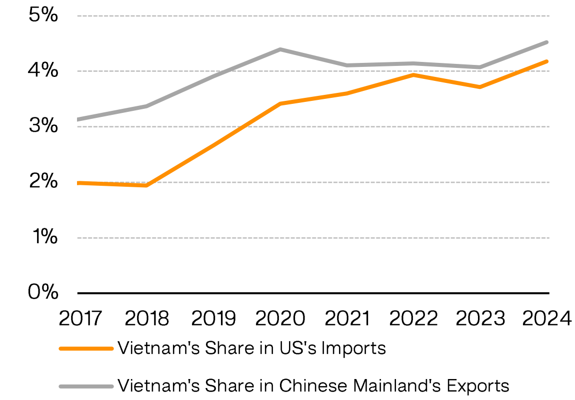
China has actively diversified its export markets to reduce its reliance on the US. Under the Biden Administration, the share of Chinese Mainland exports to advanced economies declined while trade with emerging markets increased. The US share of Chinese Mainland's total exports dropped from 19.2% in 2018 to 14.7% in 2024. Similarly, the EU share declined from 16.4% in 2018 to 14.4% over the same period. In contrast, exports to the Association of Southeast Asian Nations (ASEAN) economies, bolstered by free trade agreements like the Regional Comprehensive Economic Partnership (RCEP), more than doubled over the past decade. ASEAN is now the Chinese Mainland's largest trading partner, with market share rising from 12.8% in 2018 to 16.4% in 2024. The Belt and Road Initiative (BRI) has also played a significant role in expanding trade with emerging markets, with BRI countries accounting for 50.3% of the Chinese Mainland's total trade in 2024. Moreover, firms have increasingly enhanced supply chain integration, by moving the final assembly to third countries such as Mexico and Vietnam to avoid higher tariffs. This led to a notable increase in trade flows between the Chinese Mainland and other major manufacturing hubs. These strategies have helped sustain the Chinese Mainland's position as a leading exporter globally, with its share in world exports rising from 12.8% before the trade tensions to nearly 14.2% in 2023.

Mexico's Trade with Chinese Mainland and US



Source: CEIC, US Census Bureau

Vietnam's Trade with Chinese Mainland and US



Source: CEIC, US Census Bureau

US-China trade tensions have intensified again under the 2nd Trump presidency. Immediately after taking office, US President Trump reintroduced several protectionist measures. Notably, the US declared a national emergency related to illegal immigration and fentanyl trafficking, resulting in an additional 10% tariff on all imports from China, effective 4 February 2025. Furthermore, various federal agencies are conducting reviews on US-China trade relations, which are expected to conclude by 1 April 2025. These reviews include:

1. **Review of the Phase One Agreement:** The US Trade Representative (USTR) will review the Phase One Agreement, under which China committed to purchasing an additional USD 200 billion worth of US goods and services in 2020 and 2021, for a total of approximately USD 502.4 billion. The COVID-19 pandemic and subsequent political changes in the US hindered the achievement of these targets, with the PIIE estimating that China purchased 58% of the committed amount.
2. **Section 301 investigation:** The USTR will review the previous Section 301 investigation on China and address the avoidance of tariffs through third countries.
3. **Review Permanent Normal Trade Relations (PNTR):** The US Secretary of Commerce and USTR will review legislative proposals to end PNTR with China, which, if revoked, would expose Chinese imports, especially manufacturing goods, to significantly higher tariffs.

Potential increase in US tariffs if PNTR is revoked	
Sector	**Percentage points increase in tariffs increase**
Nondurable manufacturing	42.9
Durable manufacturing	36.9
Agriculture	24.5
Mining	5.7
Energy	1.1

Source: PIIE

4. **Review Intellectual Property (IP) Rights Status:** The US Secretary of Commerce will review the status of US IP rights in China.
5. **Others:** The USTR will evaluate other Chinese Mainland policies that may burden or restrict US commerce and make policy recommendations.

The latest US tariffs are expected to have modest impacts on the Chinese Mainland's exports and overall economic growth. The World Bank estimated that the price elasticity of the Chinese Mainland's exports would be about 0.6.[1] In the current scenario, an additional 10% tariff could lead to a 6% decline in Chinese Mainland exports to the US. This would translate into a 0.9% decline in overall exports, given that US exports comprised 14.7% of the Chinese Mainland's total exports in 2024. Previous rounds of tariff increases saw some ASEAN countries and Mexico acting as crucial intermediaries for trade between China and the US. Should the US extend similar measures to these third-party countries, the adverse effects could broaden. The elimination of de minimis exemptions for low-cost imports (less than USD 800) would also further widen the tariff impacts. That said, with the Chinese Mainland's export-to-GDP ratio at 18.9% in 2024, these tariffs might directly reduce GDP growth by about 0.2% through the export channel. Indirectly, reduced profits among export-oriented firms may affect investment and sentiment. On balance, the drag on the Chinese Mainland economy is expected to be contained.

Several sectors with substantial exposure to the US would be affected more. The sector's dependence can be measured by the US' share as a percentage of total Chinese exports in that category. In 2024, among the top ten sectors with the highest export values to the US, nuclear & mechanical machinery, furniture, bedding & lamps, toys, plastics, and textiles had over 15% share of total Chinese exports. The latest tariff hikes could lead to decreased demand in these sectors.

Top Ten Chinese Mainland's Exports to the US in 2024

	Share of Chinese exports to US	US' share of total Chinese exports
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts	24.0%	13.6%
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	17.6%	16.3%
Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; luminaires and lighting fittings, not elsewhere specified	6.0%	25.0%
Toys, games and sports requisites; parts and accessories thereof	5.1%	32.6%
Plastics and articles thereof	4.5%	16.8%
Articles of apparel and clothing accessories, knitted or crocheted	4.0%	24.9%
Commodities not classified according to kind	4.3%	24.3%
Vehicles other than railway or tramway rollingstock, and parts and accessories	3.9%	9.4%

[1] Devarajan, S., Go, D., & Robinson, S. (2023). Trade Elasticities in Aggregate Models: Estimates for 191 Countries. Policy Research Working Paper 10490, World Bank Group.

thereof		
Articles of iron or steel	2.7%	14.0%
Articles of apparel and clothing accessories, not knitted or crocheted	2.5%	19.6%

Source: CEIC

Several common interests might foster cooperation between the two nations. For instance, issues surrounding TikTok highlight potential areas for collaboration, as an option to sell the US operations of TikTok was reportedly under consideration by both sides. Besides, there is a huge potential for increasing bilateral trade in agricultural products, which would bring mutual benefits. The US and China may also find common ground in the trades of rare earths and other critical minerals. China is a dominant player in the production and processing of rare earth elements, which are especially essential for various industries. This offers incentives for the US to secure a stable supply of critical minerals to support its industrial development. Another area of potential agreement is US energy exports to China. Imports of US crude oil and liquefied natural gas will be crucial in meeting China's energy needs and its transition to cleaner energy sources. Indeed, most of the provisions outlined in the Phase One Agreement continue to hold strategic significance for both nations.

Competition in high-tech development is likely to persist. China's rapid advancements in high-tech sectors such as artificial intelligence and advanced manufacturing have spurred rising worries in the US, as some politicians view these developments as potential threats to its technological supremacy and national security. Meanwhile, China considers progress in these areas as essential for sustainable economic growth. Such divergent perspectives are likely to complicate efforts by both sides to sustain stable trade relations.

The Mainland authorities are ready to implement additional stimulus measures and reforms to strengthen domestic demand. As revealed by the Central Economic Work Conference in December 2024, the authorities are poised to focus on boosting domestic consumption as a top policy priority for 2025. In addition to implementing measures to expand consumer goods trade-in programmes and services consumption, the Mainland authorities are also expected to conduct reforms aimed at enhancing income and social security, such as increasing wages, improving healthcare and pension benefits, and increasing transfer payments to low-income groups and the unemployed. In pursuit of greater domestic self-sufficiency, China has ascended to a global leadership position in several key sectors, including drones, solar energy, graphene, high-speed rail, and electric vehicles. There has also been significant progress seen in advanced sectors such as semiconductors, artificial intelligence, robotics, machine tools, pharmaceuticals, and large LNG carriers. Moving forward, the authorities are expected to take a proactive fiscal stance, with the upcoming National People's Congress in March likely to reveal proposals for raising both the deficit ratio and treasury bond issuances, along with other targeted support measures like tax breaks, low-interest loans, and export rebates for manufacturing industries affected by the tariffs.

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