BEA 東亞銀行

Economic Research Department

10 April 2025

Economic QuickView

Chinese Mainland: Assessing China's economic outlook amid escalating US tariffs

- The US has imposed additional tariffs on Chinese goods by at least 145%.
- Although these tariffs are expected to directly reduce China's exports to the US, China's export diversification strategy should help counterbalance this drag.
- Despite the external shock, China's economy is well-prepared, thanks to investment in industrial upgrades, ample policy space and effective management of systemic risks.

Overview of Trump's tariffs since the start of his second term

Tariffs have been a cornerstone of Trump's trade agenda. President Trump's tariff policy has been a defining feature of his economic and trade policy. During his first term (2017-2021), he initiated a series of protectionist measures, including targeted tariffs, sparking a protracted trade conflict between the two nations. On his campaign trail before his second term, Trump reiterated his intentions to impose additional tariffs in order to safeguard American interests. In February 2025, just weeks into his second term, Trump imposed a 25% tariff on steel and aluminium imports, an additional 10% tariff on China, and a 25% tariff on Mexico and Canada. He later delayed the imposition of tariffs on Mexico and Canada, eventually applying the 25% rate only to a subset of those goods. In March, an additional 10% tariff was levied on Chinese imports, bringing the total tariff rate to 20% at that time. In addition, he announced a 25% tariff on automobile imports.

1 February 2025	1 February 2025	10 February 2025	4 March 2025	26 March 2025	2 April 2025
10% tariff on China (effective 4 February 2025)	25% tariff on Mexico and Canada (delayed and adjusted with exemptions)	25% tariff on steel and aluminum (effective 12 March 2025)	Additional 10% tariff on China (20% total in 2025)	25% tariff on auto imports (effective 3 April 2025)	"Liberation Day" tariffs

Trump imposed large-scale "Liberation Day" tariffs. In early April, Trump imposed a wide range of reciprocal tariffs on US trading partners. First, a 10% universal tariff was applied to all trading partners (effective 5th April). Second, higher reciprocal tariffs were imposed for a list of specific economies that the US recorded significant trade deficits (effective 9th April), including a 34% reciprocal tariff on China, which pushed the total tariff rate to at least 54% (excluding pre-existing measures). Furthermore, Trump announced that the de minimis exemption, which previously allowed low-value Chinese shipments to enter the US duty-free, will be removed (effective 2nd May).

China responded with its retaliatory measures. Shortly afterward, affected economies began seeking negotiations amid mounting recession fears. Though China remains open to negotiation, it announced retaliatory tariffs of 34% on all US goods (effective 10th April). In response, Trump imposed an additional 50% tariff (effective 9th April), raising the total tariffs on Chinese goods to at least 104%. He then raised it to a 145% tariff after China announced an additional 50% tariff to a total of 84% on all US goods (effective 10th April). Trump also announced a 90-day pause for all other reciprocal tariffs, while keeping the 10% universal tariff on all trading partners in place. The tit-for-tat exchange has fuelled speculation about a potential hard decoupling between the two nations. Even in such a scenario, however, China is well-prepared and equipped to manage a further fracturing of trade with the US.

China's export diversification strategy should counteract the tariff impacts

The latest US tariffs are poised to significantly affect China's exports. In addition to the 145% tariff increase, the removal of the de minimis tariff exemption is expected to reduce low-cost Chinese exports via e-commerce platforms, further elevating the effective tariff rate. The World Bank estimates that the price elasticity of China's exports is approximately 0.6[1]. With this additional 145% tariff, Chinese exports to the US could potentially result in a 87% decline. Given that US imports comprised 14.7% of Chinese exports in 2024, overall exports could fall by an estimated 12.8%. Notably, during previous rounds of tariff increases, Chinese firms rerouted shipments through third countries like Vietnam, Thailand, and Mexico to avoid higher tariffs. This strategy is now facing increasing constraints. This suggested that the export impact may be more severe this round. Since China's export-to-GDP ratio stood at 18.9% in 2024, these higher tariffs are estimated to reduce China's GDP growth by approximately 2.4%, a slowdown that remains manageable relative to China's 4-5% trend growth rate.

The tariffs have secondary impacts on China's investment and consumption. Beyond exports, the tariffs and the potential for further escalation have injected uncertainty among manufacturers, particularly in sectors heavily reliant on the US market. This uncertainty is likely to discourage long-term investments in factories and equipment. On the consumption side, subdued consumer sentiment and stock market declines (which contribute to a negative wealth effect) could erode household spending. Overall, these indirect impacts are anticipated to be manageable, as the authorities are preparing to roll out economic stimulus to boost domestic demand.

[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.

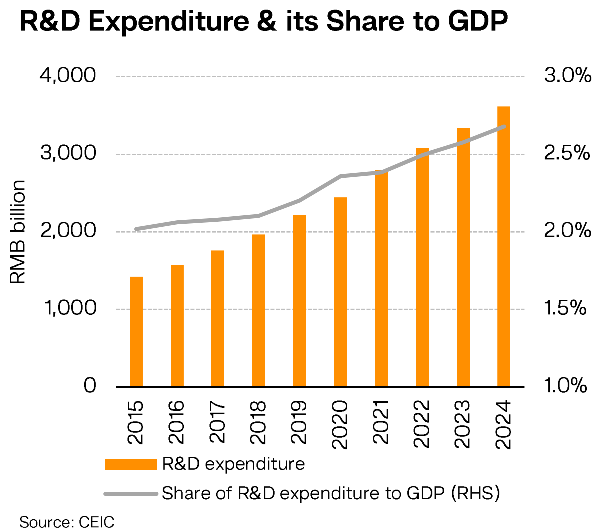
Both China and the US have incentives to negotiate amid economic pains. In the US, higher prices for Chinese imports could fuel inflation and weaken consumer purchasing power, while a declining US stock market reflects investor concerns about the costs associated with the trade conflicts. Although a comprehensive trade deal appears unlikely in the near term, the mutual economic costs could eventually prompt both countries to seek a resolution, albeit with significant uncertainties over a timeline and terms.

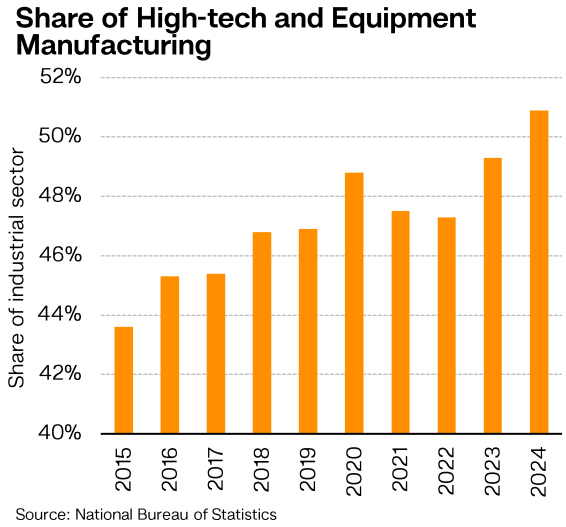
China's export diversification strategy could partially offset the adverse effects of higher US tariffs. In recent years, China has been actively diversifying its export markets by strengthening trade ties with Asia, the Middle East, Europe and Africa through initiatives such as the Belt and Road Initiative (BRI), the Regional Comprehensive Economic Partnership (RCEP) and the BRICS+ group. By 2024, the US share of China's total exports decreased from 19.2% in 2018 to 14.7%, while the share of exports to G7 economies fell from 34.5% to 27.9%. Meanwhile, the Association of Southeast Asian Nations (ASEAN) has emerged as China's top export market, accounting for 16.4% of total exports in 2024, up from 12.8% in 2018. China has also strengthened its trade with BRICS+. Collectively, the share of China's exports to BRICS+ members[2], partner economies[3] and potential members[4] rose from 20.7% in 2018 to 28.1% in 2024. Beyond the US market, these efforts are opening up new opportunities for China's exports in other regions.

China's economy is well prepared to mitigate such an external shock

China has made persistent efforts to pursue structural upgrades. The Chinese authorities have made significant investments in technological innovation and industrial modernisation. Over the past decade, R&D expenditure grew at an average rate of 10.7% to RMB 3.61 trillion in 2024, with the R&D-to-GDP ratio rising from 2.0% in 2015 to 2.7% in 2024. These investments have laid a solid foundation for enhancing technological capacity and moving up the value chain. The share of high-tech and equipment manufacturing in the industrial sector collectively climbed from 43.6% in 2015 to 50.9% in 2024. The recent release of the DeepSeek AI model is a notable example of China's technology breakthroughs. In addition, emerging sectors, from robotics and quantum computing, to commercial space and low-altitude flight activities, are set to thrive. Together with a holistic industrial base, China's technological advancement has further lifted its global competitiveness, making it difficult for other manufacturing bases to replace it.

[2] Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, the UAE and Indonesia
[3] Belarus, Bolivia, Kazakhstan, Cuba, Malaysia, Thailand, Uganda, Uzbekistan and Nigeria
[4] Saudi Arabia, Turkey and Vietnam





China has maintained ample policy space to stimulate growth. The Government Work Report kept the GDP growth target at around 5% for 2025, signalling a commitment to sustaining growth momentum. Compared to other advanced economies, China has refrained from adopting overly large-scale stimulus measures or ultra-loose monetary policies. It is also prioritising initiatives to boost household consumption as part of a broader strategy to drive growth. With household consumption and household deposits representing about 40% and 110% of GDP by the end of 2024, there is substantial scope to expand consumption, particularly in the services sector. By the end of 2024, the government debt-to-GDP ratio remained slightly below 60%, providing significant room for fiscal maneuvering. The authorities are expected to first utilise the existing fiscal options available, after which additional fiscal measures targeting investment and consumption could be announced. On the monetary front, the People's Bank of China (PBoC) retains flexibility to provide liquidity and funding support to the economy and the financial sector. Technology finance, green finance, inclusive finance, pension finance and digital finance are the five key focuses. The PBoC is likely to resume lowering of the required reserve ratio and interest rates soon, while maintaining currency stability remains a priority.

China has taken active measures to defuse systemic risks and enhance economic resilience. In recent years, the authorities have already implemented measures to address developers' over-leverage situation and promote effective demand rather than speculation. This has fostered the property market consolidation over the past 3 years, with the latest indicators suggesting a stabilisation with more sustainable growth prospects. Besides, the authorities are making efforts to tackle the local government debts through debt swap programmes and stricter oversight of off-budget borrowing. These measures are freeing up fiscal space for the local governments and preventing them from further accumulating hidden debts. To address financial volatility, proposals such as establishing a stabilisation fund, encouraging long-term capital in the stock market, and offering incentives for listing companies to enhance their valuations have been put forward.

The recent US tariffs pose challenges but do not undermine China's economic resilience. Despite trade tensions remaining high, both countries have incentives to negotiate. China is well-positioned to mitigate the negative impacts of US tariffs and sustain its steady growth trajectory through export diversification, technological innovation, supportive policies, and a large domestic market.

Disclaimer

For more information, please visit our webpage at https://www.hkbea.com/html/en/bea-about-bea-economic-research.html. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).