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U.S.-China Trade War 2.0: Tumultuous Tit-for-Tat

Key Takeaways

- The Trump Administration has announced that an additional 50 percent tariff will be added on top of the 34 percent tariff on Chinese goods that is set to go into effect at 12:01 AM on April 9.

- It is now clear that the United States and China have entered a period that can only be called a true escalatory "trade war." There are no unambiguous signs that U.S.- China trade negotiations will commence any time soon, despite the Trump Administration's apparent willingness to start talks with other partners in Asia.

- In turn, China is exercising the full range of trade tools it developed in recent years to respond to U.S. tariffs – targeting a spectrum of differentiated measures. Beijing's latest announcement of retaliatory measures sought to incur relative costs on the United States with minimal harm to the Chinese economy.

- Additional retaliation by China on April 9 is entirely possible – even likely. Following Trump's April 7 threat to add another 50 percent, the Chinese government responded that it would "fight to the end." President Trump's singling out of China for additional tariffs and his inflammatory rhetoric have created a situation where President Xi must maintain face domestically and continue to respond blow-for-blow. Chinese social media is heating up on the issue, leading to the possibility of consumer backlash against American products sold in China.

- To adapt to the rapidly evolving situation, Beijing will also continue to use a range of macroeconomic tools to mitigate the impact of the U.S. tariffs, including lowering reserve requirement ratios, expanding government debt, and intervening in financial markets to stabilize investor confidence.

- Over the medium term, Beijing will take additional steps to diversify its trading relationships with Europe and Asia and further decrease reliance on trade with the United States, a process that is already unfolding.

- China's leaders will also carefully track how other countries fair in their negotiations with Trump. If the majority of countries in Europe and Asia do reach for negotiations with Washington, China could feel isolated and more actively consider taking the risks of starting talks with the Trump White House.

China's Response to U.S. Tariffs

On April 4, the Chinese government announced eight distinct retaliatory actions in response to President Trump's imposition of a "reciprocal" 34 percent tariff on Chinese imports as part of his April 2 "Liberation Day." China's announced measures included 1) a 34 percent tariffs on all imported U.S. products starting April 10; 2) expanded rare earth export controls; 3) anti-trust investigation into chemical giant DuPont's China business units; 4) addition of 11 U.S. defense companies to the Unreliable Entity List (UEL); 5) addition of 16 companies to China's export control list; 6) suspension of six U.S. agriculture companies' export qualifications into China; 7) anti-dumping investigation into specific medical devices; and 8) a WTO lawsuit.

U.S.	February 1	March 4	April 2
	• 10% tariff	• 10% tariff	• 34% reciprocal tariff & ends de minimis exemptions
China	**February 4**	**March 4**	**April 4**
Tariffs	• 10% & 15% tariff on energy imports • 15% tariff on ag machine & vehicles	• 10% & 15% tariffs on ag imports	• 34% on all American imports
Export Control	• Export controls on 5 critical minerals	• Adds 15 U.S. companies to the export control list	• Export control on 7 rare earth items • Adds 16 U.S. companies on the export control list
Unreliable Entity List (UEL)	• Put PVH and Illumina on the UEL	• Adds 10 U.S. companies to the UEL • UEL punishment on Illumina unveiled	• Adds 11 U.S. companies to the UEL
WTO Complaints	• Complaint to the WTO's dispute settlement mechanism	• Request for dispute settlement consultations with the U.S.	• Lawsuit with the WTO against the US "reciprocal tariffs."
Trade Remedy Case	• N/A	• Anti-circumvention case on optical fiber	• Anti-industrial competitiveness case and AD case on CT medical Tubes
Anti-trust Case	• Anti-trust investigation into Google	• N/A	• Anti-trust investigation into DuPont
Customs Suspend Imports	• N/A	• Suspend U.S. lumber imports and 3 soy exporter's qualification	• Suspend 6 U.S. ag companies' export qualifications into China

These measures continue the pattern seen over the last three retaliation cycles. Beijing's selected actions aim to inflict costs on key U.S. U.S. constituencies—agricultural exports, critical minerals needed by tech companies, and DuPont, which has major operations in multiple Republican states – while keeping the damage to China's economy minimal. The DuPont investigation also comes on top of existing anti-trust investigations into Google and Nvidia and seems to represent an increased willingness by the Chinese government to leverage anti-trust investigations and broader "lawfare" tools.

The Next Round of Tariffs and Impact on China's Economy

While President Trump's "Liberation Day" tariffs hit every U.S. trading partner in Asia, China is the only country to immediately retaliate, with other countries choosing to offer concessions and begin to negotiate. China's solitary stance may be a factor in President Trump's decision to apply additional 50 percent tariff on China if it did not reverse the decision to impose a 34 percent tariff on the United States. If the 50 percent tariffs are enacted as promised on April 9, in combination with 34 percent on "Liberation Day," the initial 20 percent levied by Trump this year for fentanyl trafficking, and the residual tariffs from 2018-2024, China could be facing a combined 115 percent tariffs, or even higher when factoring in the closure of the *de minimis* exemption and if China is subjected to secondary tariffs over Venezuelan oil imports.

In recent convenings, including the Two Sessions meetings and the China Development Forum, Chinese officials have conveyed a sense of confidence in China's economic ability to weather Trump Administration tariffs and increased U.S.-China trade tensions. To mitigate the effects of the tariffs domestically, Beijing is likely to focus on increasing support for domestic demand, implementing more aggressive fiscal and monetary policies, and furthering trade diversification with Europe and parts of Asia. On April 8, Premier Li Qiang held a call with EU President Ursula von der Leyen during which the two discussed setting up a mechanism for tracking possible trade diversion caused by tariffs. Furthermore, Xi Jinping will be traveling to Southeast Asia with stops in Vietnam, Malaysia, and Cambodia in mid-April, providing an opportunity to engage these economies at a time of great uncertainty.

China has also taken a few immediate steps to shield its economy and markets from tariff fallout. With China's stock market performance becoming a proxy for public confidence, state-backed fund Central Huijin intervened on April 7 to support slumping domestic equities. This Chinese government backstop earned the nickname the "Xi Put,"—symbolizing the expectation that Beijing will intervene to prevent severe market downturns. In addition, on April 8, China's macroeconomic planner the National Development and Reform Commission met with a range of large domestic companies to strategize and pledge state support.

Prospects for Negotiation

The Chinese reaction to Trump's threat of an additional 50 percent tariffs was resolute and confirms there are limited immediate prospects for trade negotiations. MOFCOM issued a statement that China will take firm countermeasures if the United States proceeds with the 50 percent tariff and will "fight to the end if the United States insists on its own way." Furthermore, Chinese interlocutors have indicated to The Asia Group that there is no ongoing or planned engagement at the senior government levels that could create a runway for negotiation or a leader level meeting.

On April 6 the Ministry of Commerce (MOFCOM) hosted a vice-ministerial level meeting with select American companies, including Tesla and GE, to reassure them of China's commitment to attract foreign investment. In a tactic begun during the first Trump administration, Beijing also implored these companies to convey a stronger message to Trump that the tariffs are hurting not helping American business, in an attempt to find additional ways of applying pressure on the Trump administration to reverse course.

On April 8, according to Bloomberg, two identical sets of potential countermeasures the Chinese government could use to hit back at the latest tariff threats were posted on two influential Chinese social media accounts – one owned by Liu Hong, a senior editor at state-run news site Xinhua, and the other by Ren Yi, the influential grandson of former Guangdong party chief Ren Zhongyi. The countermeasures include: suspending cooperation on fentanyl-related issues; "significantly" increasing tariffs on US agricultural products such as soybeans and sorghum; banning the import of U.S. poultry; imposing curbs on U.S. services with China; reducing or banning the import of U.S. films; and investigating the intellectual property benefits of U.S. companies operating in China. The informal dissemination of this list of prospective countermeasures can be seen as an "intentional leak" or trial balloon by Chinese government to test the temperature of these responses. Each of the measures on the list are doable for China, with some actions more significant and impactful than others, and they underscore Beijing's strategy to inflict pain on U.S. consumers and businesses to exert pressure on the Trump Administration.

Another casualty of the tariffs on China seems to be a tentative deal for ByteDance, with the support of the Chinese government, to sell TikTok to American investors. On April 4, one day ahead of the deadline for TikTok to divest from ByteDance or be banned, President Trump signed an executive order to extend the deadline for 75 days. The morning before tariff's were announced, U.S. officials were reportedly close to reaching an agreement with ByteDance that would have permitted the launch of a new U.S.-based version of TikTok majority-owned by American investors, with ByteDance's holding declining to below 20 percent to comply with U.S. law, according to media reports. Following Trump's tariff announcements in the afternoon, ByteDance reversed its position, saying they needed more time to understand the impact of the tariffs on this development, making it more likely that TikTok will become a piece of any trade negotiations that do take place over the coming months.

Implications for Business

- With both the United States and China taking unrelenting positions in the exchange of tariffs and retaliatory measures, a significant deterioration in U.S.-China relations is likely to continue for a period, with limited off-ramps currently available. This suggests Q3 of this year may be the earliest timeframe for the start of any future negotiations.

- This new U.S.-China trade war has dramatically increased uncertainty for U.S. companies operating globally, potentially undercutting China's efforts to attract foreign investment. Major U.S. retailers have already faced scrutiny from Beijing for pressuring Chinese suppliers to absorb some of the costs of tariffs by cutting their prices. However, China's pushback on Western companies could backfire if it is perceived as undermining its broader message of welcoming foreign investment.

- China's expanded use of anti-trust investigations, export controls, and the Unreliable Entity List (UEL) indicates a potential for increased regulatory risk for multinational companies operating in or with China.

- In addition to formal Chinese government actions, some American companies may begin to face consumer boycotts in China as netizens begin to call for boycott campaigns with implicit government support.

- If the full extent of threatened tariffs on China is implemented, China will stand head and shoulders above other tariffed countries, introducing another challenging development for companies to factor into their decision-making on supply chain diversification and China + 1 strategies.