Weekly China Insight

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Special Edition: US-China Trade War 2.0

Trump initiates new round of tariff war against China, Canada, and Mexico

On 1 February, US President Donald Trump announced the imposition of a 10% tariff on all Chinese imports, citing concerns over fentanyl trafficking. Besides China, Trump also announced a 25% tariffs on imports from Mexico and Canada, but their implementations were delayed by 30 days following negotiations. The announced US tariffs on China are proceeding as planned as of this writing. In response, China filed a dispute with the World Trade Organization (WTO), arguing that the US tariffs violate international trade agreements.

The tariffs on China, without a delay similar to that granted to Mexico and Canada, underscores the escalating trade tensions between Washington and Beijing. China's challenge at the WTO will face tremendous headwinds, as the WTO's dispute resolution mechanism is currently impaired. This trade tension between Washington and Beijing under the second Trump administration will further strain US-China relations, with significant implications for global supply chains and economic stability.

China responds with a three-pronged approach: 10% and 15% tariffs on US imports

On 4 February, in response to Trump's 10% tariff on all Chinese imports, China announced retaliatory tariffs on select US goods. Effective 10 February, China will impose an additional 15% tariff on coal and liquefied natural gas (LNG), and an additional 10% tariff on crude oil, agricultural machinery, and large-engine vehicles and pick-up trucks originating in the US.

China came up with a comprehensive package of countermeasures to Trump's latest trade provocations within days, all the while during a major national holiday. This quick response by Beijing indicates China is much more prepared to engage in a trade war with the US than the last time around. The targeted tariffs on energy and machinery sectors are significant, given the substantial trade volumes in these areas, while minimizing domestic economic disruption.

China responds with a three-pronged approach: expanding export controls

On 4 February, in response to Trump's 10% tariff on all Chinese imports, the Chinese Ministry of Commerce and the General Administration of Customs also announced additional export controls on key industrial minerals. The new restrictions apply to tungsten, tellurium, bismuth, molybdenum, and indium, which are materials critical to the production of semiconductors, aerospace components, and military equipment. Chinese commerce ministry officials said these restrictive measures are necessary to "safeguard national security and strategic interests," signaling a targeted approach to put pressure on US supply chains.

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These export controls follow earlier restrictions on gallium and germanium exports in 2023, reinforcing China's strategy of using resource dominance as economic leverage in its ongoing trade and tech struggle with the US. China's expanded export controls highlight its ability to disrupt US high-tech and defense industries without imposing direct tariffs. By tightening US access to these critical minerals, Beijing aims to increase costs for American manufacturers and force Washington into negotiations.

China responds with a three-pronged approach: sanctions and an antitrust probe on US companies

On 4 February, China placed genetic testing firm Illumina and Calvin Klein-owner PVH Corporation on its Unreliable Entity List, imposing restrictions that could include fines, trade bans, and revocation of work permits for foreign staff. Illumina, which derives about 7% of its revenue from China, is a key player in the global biotech industry, while PVH has faced prior scrutiny over its operations in Xinjiang. In a further escalation, the Chinese market regulator (SAMR) also launched an antitrust investigation into Alphabet's Google, though specific allegations have yet to be disclosed. Alphabet's revenue from China only accounts for around 1% of its global sales.

These actions against US companies come just days after the US imposed new tariffs on Chinese imports, signaling Beijing's willingness to retaliate using non-tariff tools. So far, Beijing's countermeasures against US tariffs are notably comprehensive and appear calibrated to maintain pressure without triggering immediate economic disruptions. The inclusion of export controls and company-specific retaliations signal Beijing's readiness to respond more aggressively if necessary, while leaving room for negotiations and a potential diplomatic resolution.

Trump-Xi call cancelled amid escalating trade war

A planned phone call between US President Donald Trump and Chinese President Xi Jinping was said to be cancelled after China retaliated against new US tariffs. The White House initially signaled that the leaders might discuss a possible tariff pause, similar to the agreements reached with Mexico and Canada. However, Beijing's swift countermeasures led Trump to dismiss the urgency of direct talks, saying "If we can't make a deal with China, then the tariffs would be very, very substantial."

The abrupt cancellation of the call highlights a deepening rift, with neither side eager to make concessions. China's measured mixture of tariffs and regulatory actions suggests a more diversified strategy in countering US pressure. A direct phone call between the two leaders would be a significant diplomatic engagement that could potentially manage the ongoing disputes between the two nations. (Xi and Trump did speak on 17 January, but mostly as a courtesy and not about tariffs.) Without a high-level dialogue, the risk of escalation increases, with the potential for harm to global supply chains. However, Beijing's relatively restrained measures suggest it is keeping the door open to negotiations.