Sino-US Trade War

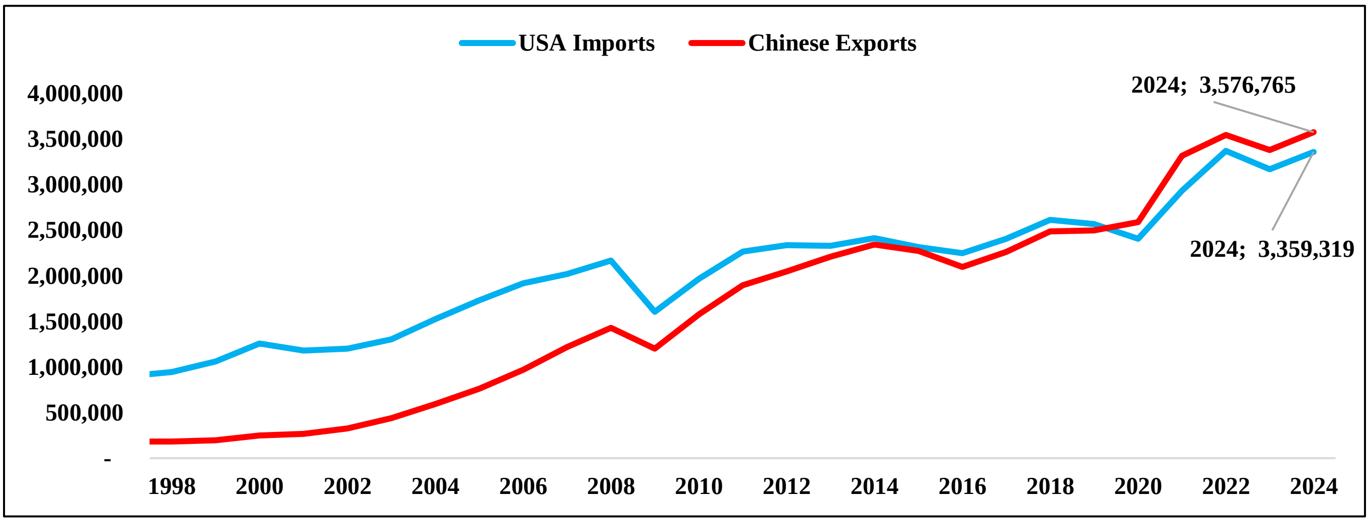
Brief Exploration of Trade, Reciprocal Tariffs and US Relations with China.

April 2025

Introduction

China and the United States are the two largest economies in the world. Since China joined the World Trade Organization (WTO) in 2001, it has become the world's largest merchandise[1] exporter, sending more than $3.5 trillion worth of goods abroad in 2024. The United States remains the largest merchandise importer and is a key driver of global investment and consumption, with merchandise imports exceeding $3.3 trillion in 2024. Looking at the figures, it is unsurprising that the USA is the main export destination for Chinese merchandise hence highlighting the global significance of Sino-US[2] relations.

Figure 1: Total USA Merchandise Imports vs Total Chinese Merchandise Exports (USD Millions)

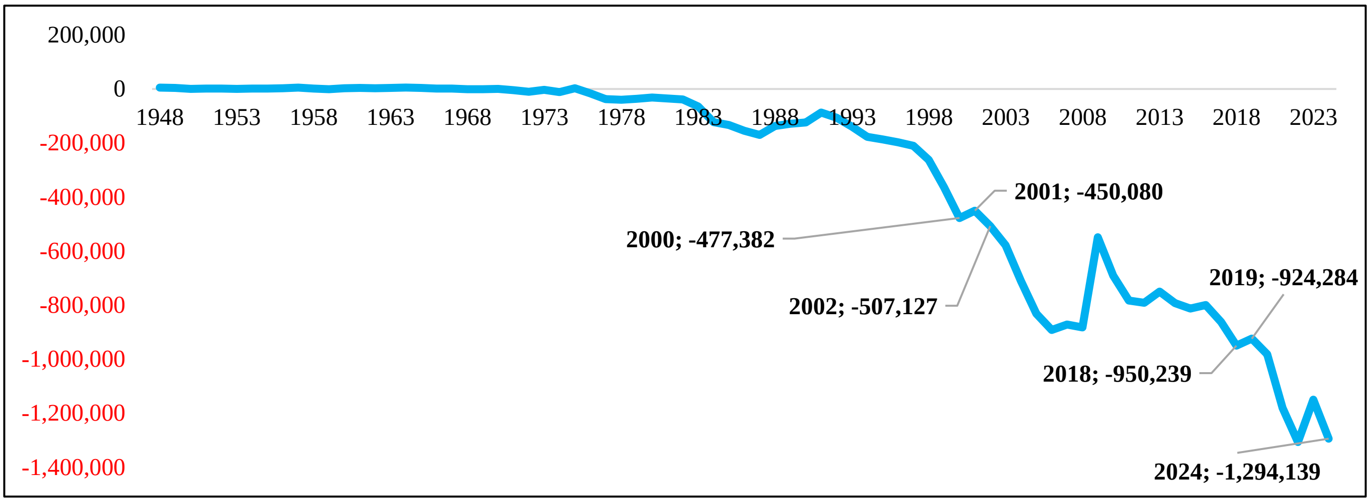


Source: World Trade Organisation

On ***April 2nd 2025***, President Donald Trump announced a new set of ***Reciprocal Tariffs***[3] aimed at more than 180 trading partners and called the occasion ***Liberty Day***. The policy is intended to reduce the growing trade deficit and to revive domestic industries by applying pressure on foreign exporters. This development marks another chapter in the evolving and often tense relationship between the world's leading powers.

[1] ***Merchandise Trade*** refers to tangible goods that are traded internationally, such as machinery, electronics, food products, and raw materials. It excludes services like finance, education, tourism, and software licensing.
[2] ***Sino*** is a prefix used to refer to China or Chinese-related matters, especially in the context of international relations.
[3] ***Tariffs*** are government-imposed taxes on imported goods, used to raise revenue or protect domestic industries by making foreign products more expensive.

Figure 2: USA Merchandise Trade Balance (1948 – 2024) (USD Millions)



Source: World Trade Organisation

History of Sino-USA Relationship

The United States and China have had a tenuous relationship since the Communist[4] Party took control of China in 1949. The USA, a capitalist democracy[5], viewed China's Communist government as a threat to the liberal international order and initially aligned with Taiwan (the Republic of China) as the legitimate government of China.

In the 1950s and 1960s, relations were largely frozen, marked by sanctions and ideological hostility. A major shift occurred in the 1970s with China's admission to the UN in 1971 and President Nixon's visit in 1972. These developments paved the way for normalisation, formalised in 1979 with USA recognition of the People's Republic of China and adoption of the ***one-China policy***[6].

The 1980s and 1990s saw rapid economic growth in China and deepening trade ties. By 2001, with China's accession to the WTO, the two economies were deeply intertwined. However, concerns over trade imbalances, intellectual property theft, and human rights persisted. Tensions escalated in the 2000s as China became more assertive under President Xi Jinping, prompting USA pushback on trade practices and regional security. This culminated in the 2018 trade war during President Trump's first term, with mutual tariffs marking a confrontational turn.

2025 comes with Trump's second term and the introduction of Liberty Day Tariffs as part of his ***America First regime***, tensions continue to rise, potentially reshaping the long-term trajectory of bilateral trade.

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[4] ***Communism*** is a political and economic system that seeks to eliminate economic inequality through collective ownership of property and centralized control of production

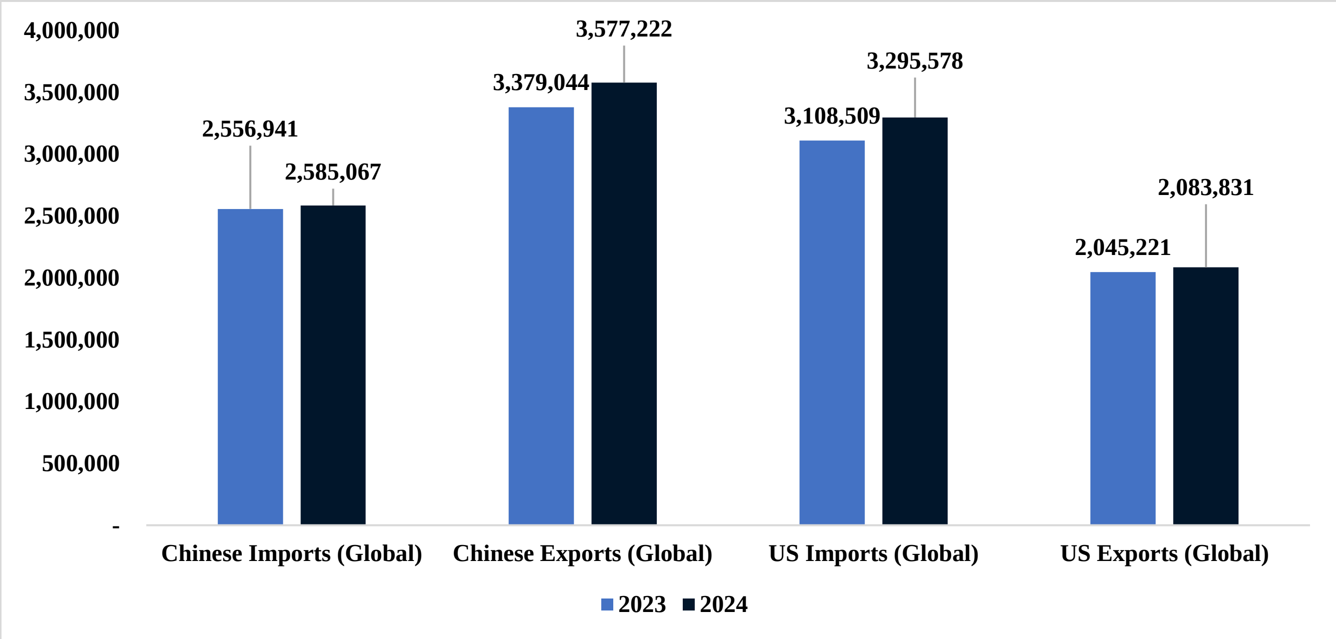
[5] ***Capitalist Democracy*** refers to A system of government where private ownership of production and market-based economies are central, combined with a political system based on democratic principles such as individual freedoms and political rights.

[6] ***One China Policy*** refers to China's position that there is only one Chinese government, the USA recognises and has formal ties with China rather than Taiwan.

Bilateral and Global Trade Dynamics

Trade between the United States and China is deeply integrated into the global economy. Chinese imports in 2023 were valued at approximately 2.56 trillion USD, while exports reached 3.38 trillion USD. The U.S., on the other hand, had imports valued at 3.11 trillion USD and exports at 2.05 trillion USD in 2023. In 2024, Chinese imports increased slightly to 2.59 trillion USD, and exports rose to 3.58 trillion USD. U.S. imports climbed to 3.30 trillion USD, with exports at 2.08 trillion USD.

[7]**Figure 3: China & US Trade Statistics 2023 vs 2024 (USD Millions)**



Source: USA Bureau of Economic Analysis & The General Administration of Customs of the People's Republic of China (GACC)

China's major export commodities include mechanical and electrical products, such as mobile phones, electronic integrated circuits, and household appliances. In addition, items like refined petroleum products, grain food, and footwear are significant export categories, demonstrating China's key position in industries ranging from consumer electronics to textiles. Other notable exports include medical and surgical instruments, motor vehicles, and products made from steel or iron.

On the import side, China remains heavily reliant on high-tech products, raw materials, and energy sources. Key imported commodities include electronic integrated circuits, mechanical products, and rare-earth ores, which are essential for China's manufacturing sector. Crude oil and refined petroleum products also make up a large portion of imports, reflecting China's vast energy needs. Additionally, China imports significant quantities of raw agricultural products, fertilizers, and various chemicals, ensuring a steady supply of materials to support its extensive industrial base.

In comparison, the USA's trade activities in 2023 and 2024 also reflect a large and diverse global presence. USA exports in 2023 were valued at approximately 2.04 trillion USD, while imports stood at 3.11 trillion USD. In 2024, the USA saw a slight decrease in exports to 2.08 trillion USD, while imports rose slightly to

[7] WTO trade figures may differ from those of the USA's BEA and China's GACC due to differences in valuation methods, exchange rates, data timing, and how trade partners are classified (such as treatment of re-exports via Hong Kong or trade with Taiwan).

3.30 trillion USD. The USA's major exports include manufactured goods, such as machinery, electrical equipment, and vehicles, along with agricultural commodities like cereals, meats, and beverages.

The USA's import needs are also diverse, with major imports including machinery, electronic equipment, chemicals, and petroleum products. In particular, the USA is a major consumer of raw materials, including crude oil, as well as high-tech products like electronics and pharmaceuticals. This trade pattern highlights the USA's significant role in the global market as both a major producer and consumer of goods, with a high reliance on both advanced technology and raw materials.

This comparison further underscores the global interdependency between China and the USA, with both countries playing crucial roles as manufacturing powerhouses and major consumers in the global trade system.

Liberation Day Tariffs and Escalating Tension

On April 2nd, 2025, the United States announced a significant economic measure, imposing tariffs on exports from over 180 of its trading partners as part of a broader strategy to address its growing trade deficit. This decision, made by President Donald Trump, introduced tariffs determined by a formula that took into account the trade deficit-to-imports ratio, along with factors such as elasticity and throughput of tariffs on final prices. The tariff rates, such as the 34% rate applied to China, varied across countries depending on their trade surpluses with the USA. The primary goal of these tariffs was to protect USA. domestic industries and reduce the nation's trade deficit. This decision reflected a broader trend of using tariffs to address trade imbalances, particularly amid strained global supply chains and rising geopolitical tensions. The impact of these tariffs on global trade dynamics, including shifts in trade flows and production costs, was expected to be significant, but only a week later, on April 9th, President Trump signed a new Executive Order amending his administration's trade strategy.

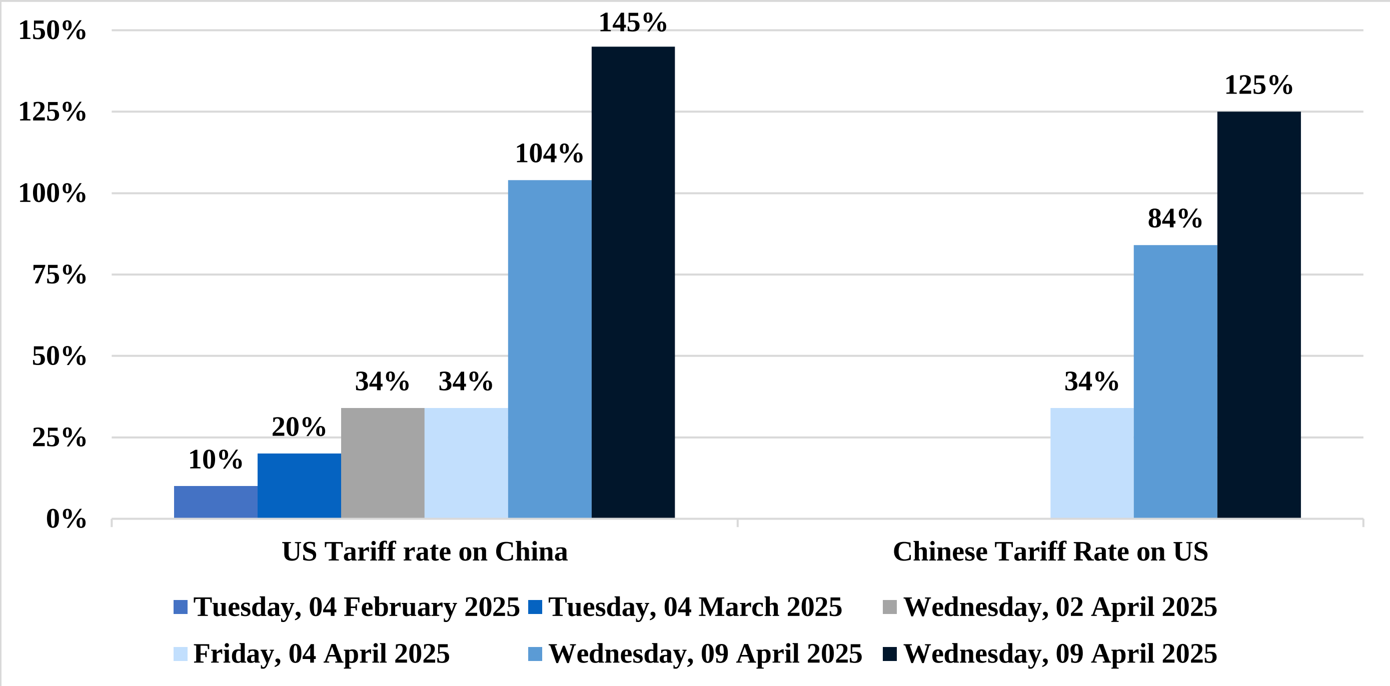
Table 1: Top 20 Reciprocal Tariffs Set April 2nd

COUNTRY	RECIPROCAL TARIFF	CONTINENT
LESOTHO	50%	Africa
CAMBODIA	49%	Asia
LAOS	48%	Asia
MADAGASCAR	47%	Africa
VIETNAM	46%	Asia
MYANMAR (BURMA)	44%	Asia
SRI LANKA	44%	Asia
SYRIA	41%	Asia
MAURITIUS	40%	Africa
IRAQ	39%	Asia
GUYANA	38%	South America
BOTSWANA	37%	Africa
BANGLADESH	37%	Asia
LIECHTENSTEIN	37%	Europe
SERBIA	37%	Europe
THAILAND	36%	Asia
BOSNIA AND HERZEGOVINA	35%	Europe
CHINA	**34%**	**Asia**
NORTH MACEDONIA	33%	Europe
ANGOLA	32%	Africa

Source: The White House, USA Bureau of Economic Analysis, USA Trade Representative & HEI Research

Following the tariff announcement, on April 4th China retaliated with a 34% tariff on American goods. The retaliation set off a week-long cycle of escalating tariff measures between the two countries. On April 9th, President Trump initially raised the tariff rate to 104% on Chinese imports, while China's retaliatory tariff on USA was set at 84%. Just hours later, a second announcement escalated the tariffs even further, with USA. tariffs on Chinese goods reaching 145%, while China responded with 125% tariffs on American imports.

Figure 4: Escalating Sino-USA Tariff Rates (February 4th 2025 – April 9th 2025)



Source: USA Trade Representative, Reuters & CNN

These rapid increases in tariff rates highlighted the intensifying trade war between the two nations, with both sides using escalating tariffs as leverage. China, in turn, called for the removal of all USA. tariffs, emphasizing that such unilateral actions were hindering the path toward resolving trade issues. The Chinese government urged the USA. to consider the rational voices of both international and domestic stakeholders who sought de-escalation.

The imposition and escalation of these tariffs had significant implications for global trade dynamics. The sudden surge in costs forced businesses to reassess their supply chains, with many seeking alternatives to mitigate the financial impact. Industries reliant on Sino-US trade were particularly affected, as both countries became less accessible for each other's exports due to the heightened tariff barriers[8].

As of 24th April 2025, USA has indicated intentions to de-escalate the trade war, lowering them from 145% to between 50% and 65%, contingent on negotiations. Chinese officials have indicated a need to remove all unilateral trade tariffs to solve the trade issue.

[8] Certain Goods were exempt or being considered for exemption, such as medical equipment; leases on aircrafts and microchips.

Outlook and Evolving Sentiments

As of the end of April 2025, Sino-USA trade relations remain highly uncertain, though both nations have shown a willingness to de-escalate tensions. The USA has signalled that it could reduce tariffs from 145% to between 50% and 65%, contingent on progress in negotiations. However, the situation is still fluid, with key economic and political factors influencing the path forward.

ECONOMIC IMPACT AND SUPPLY CHAINS

The reciprocal tariff calculations used in the USA's strategy hypothesized that the USA could ultimately come out ahead in a trade war with China. This theory, however, has not fully accounted for the broader global economic impacts. As the trade war escalates, companies are increasingly diversifying their supply chains. Apple, for instance, is reportedly considering shifting some of its manufacturing from China to India. Meanwhile, China has indicated plans to replace American beef with Australian beef, further reshaping global agricultural trade dynamics. This signals an important shift in supply chains, which could lead to lasting changes in the competitive landscapes of global manufacturing and agriculture.

POLITICAL AND DOMESTIC PRESSURES

Internally, both countries face pressures from sectors reliant on trade. The USA's "America First" policies have sparked concerns in industries that depend on imports, particularly in technology and agriculture. Similarly, China is likely to continue pushing for tariff removal, which it views as an impediment to economic stability. Both nations are under domestic pressure to ensure that any trade deal delivers tangible benefits to their economies, making negotiation and compromise essential for progress.

MARKET VOLATILITY AND GLOBAL UNCERTAINTY

Since the April 2nd tariff announcement, global markets have experienced heightened volatility. Major currencies, stock indices, and commodity prices have fluctuated in response to the uncertainty surrounding Sino-USA trade. The ongoing tariffs have contributed to this volatility, affecting not only China and the USA but also broader markets. The Bank of Namibia, European Central Bank, Bank of Canada and Bank of Japan have all referenced the economic and financial uncertainty from US trade policy in April. This environment of economic instability reinforces the need for caution and strategic decision-making by countries navigating the shifting global trade landscape.

GLOBAL CONSIDERATIONS AND STRATEGIC ALIGNMENT

For other countries, it is critical to stay informed about the ongoing Sino-USA negotiations. Understanding the evolving trade dynamics and the potential for further tariff adjustments can help other nations adapt their strategies accordingly. Countries should consider aligning their trade and non-trade strategies to reflect the current global situation, strengthening ties with both the USA and China where possible, and positioning themselves to benefit from shifts in global supply chains.

While the possibility of continued tariff escalation remains and confusion on the state of other countries' tariff rates once the 90 days lapse, the apparent desire for de-escalation from both sides offers hope. China and the USA will likely negotiate to resolve key issues, including trade imbalances, intellectual property rights, and market access. A resolution could lead to a stabilization of trade and a return to multilateral agreements that foster more predictable global trade relations.

In conclusion, the outlook for Sino-US trade remains uncertain, with significant risks and potential rewards. While both nations have indicated a willingness to de-escalate tensions, the broader global context is shifting, with changes in supply chains, market volatility, and strategic realignment influencing the future trajectory of global trade. Countries should monitor developments closely, prepare for potential outcomes, and adjust their strategies to navigate this evolving landscape.

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