

Economic Briefing

China – Update on trade tensions with the US

7 March 2025

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The Trump administration has so far imposed two rounds of tariffs on China in February and March, signed a memorandum to restrict Chinese investments in the strategic sectors in the US and vice-versa, and planned to charge service fees on Chinese-built ships that enter US ports. China has also announced counter-tariffs, export controls on critical minerals, and targeted a couple dozen of US companies. While China's response has been restrained so far, more aggressive retaliation cannot be ruled out. We summarize what is currently known about the US-China trade tensions since January this year.

Measures imposed by the US on China so far

Since US President Donald Trump took office on January 20, a series of new protectionist measures have been implemented against China:

- Effective on February 4: An additional 10% blanket tariff was imposed on US imports from China, covering about \$440 billion worth of Chinese products. This is based on the grounds of alleged trade of fentanyl from China to the US via Canada and Mexico.
- February 21, part 1: President Trump signed a memorandum called "**America First Investment Policy**". The memorandum directed the Committee on Foreign Investment in the United States (CFIUS) to restrict investments from China in strategic sectors, including technology, critical infrastructure, healthcare, agriculture, energy, and raw materials. The US administration will seek to strengthen CFIUS authority over "greenfield" investments, and to restrict foreign adversary access to US talent and operations in sensitive technologies, especially in AI. It will also protect US farmland and real estate near sensitive facilities. The Trump administration will also consider new or expanded restrictions on US investments to China in sectors such as semiconductors, AI, quantum, biotechnology, and aerospace.
- February 21, part 2: The US Trade Representative (USTR) tabled a plan to charge a "service fee" of up to \$1 million per vessel per port visit for Chinese vessel operators. A graduated set of fees for any shipowner with Chinese-built vessels will also be charged. They would be based on the percentage of Chinese-built vessels in a fleet and run from \$500k to \$1.5mn. The plan is based on the grounds that China was unfairly dominating the maritime, logistics, and shipbuilding sectors by undercutting



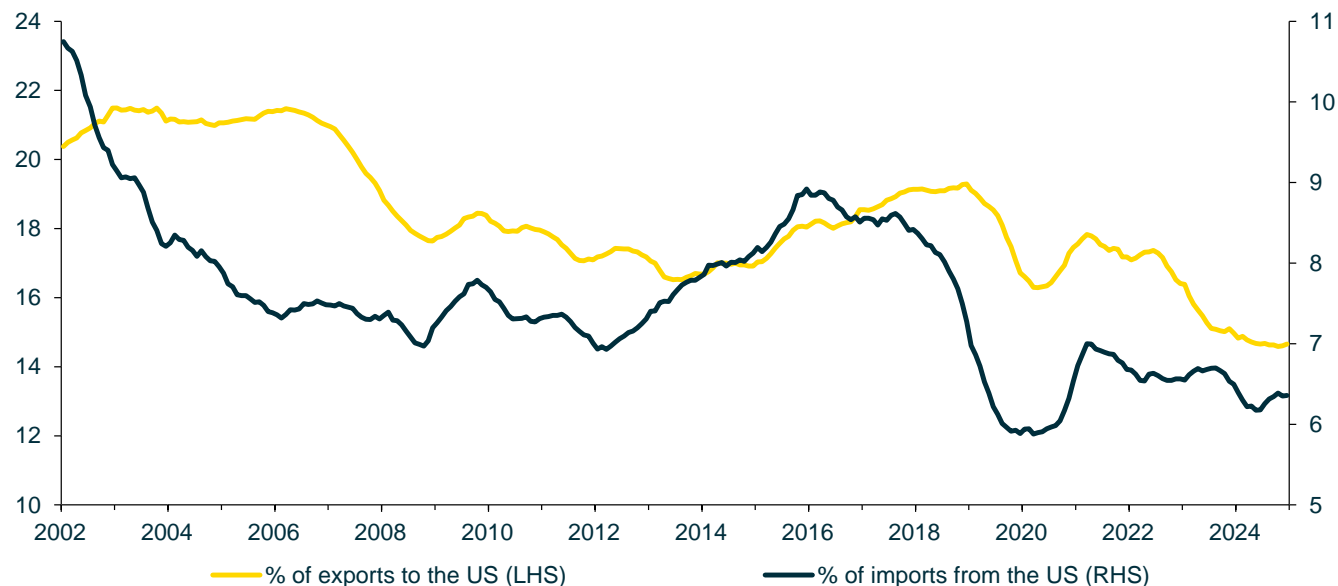
competition and taking market share with dramatic effect. The **proposed remedies** are open to public comments, and a public hearing will be held on March 24.

- Effective on March 4: Doubled the additional blanket tariff on China to 20% from the 10% imposed on February 4.
- Effective on March 12: An additional 25% general tariff on steel and aluminum imports. For China, this is a 25% on US imports of these products from China in addition to the blanket tariff increase imposed by the Trump administration on all Chinese imports.
- March 24: Deadline for comments and hearings on unfair Chinese trade practices to dominate the global shipping and maritime logistics sector. Measures such as increased US docking fees for Chinese ships are possible according to USTR's plan from February 21.
- April 2 (?): Trump's "reciprocal tariffs" could come into force as soon as this date. These are intended to bring US tariffs on a level with the tariffs or non-tariff trade restrictions imposed by other countries (such as EU countries) on the various product groups. It is not clear how the imports from China will be affected.
- Mid-May (?): While the Biden administration was still in office, his administration introduced new limits on the sale of advanced AI chips on January 13, 2025. The regulation will take effect 120 days from publication, and allow a year for industries to adjust to meet the security requirements in the new rules. Under the new regulation, there will be three tiers of countries. There will be no new restrictions for the first tier which consists of partners and allies of about 18 jurisdictions including the Netherlands, Japan, South Korea, and Taiwan. A third tier of 22 countries including China and Russia will be subject to further restrictions on the sale of the most powerful "closed" AI models. In between there is the second tier that comprises most of the world, which will have new caps on the amount of computing power that can be bought, although they will be able to apply for additional quotas subject to certain security requirements. This is intended to prevent China from accessing AI chips through third countries.
- Spring 2025 (?): Concrete measures to restrict Chinese investment in sensitive areas of the US economy. Publication of a "white list" of trusted foreign investors.
- December 23: While the Biden administration was still in office, an investigation into China's pursuit of dominance in the global semiconductor industry was launched on December 23, 2024. The results are expected to be available by December 23, 2025, at the latest.



Chart 1 - The importance of the US as China's trading partner has declined since the first Trump administration in 2017

% share in total Chinese exports and imports, 12 month moving average



Source: China Customs, CEIC, Commerzbank Research

How has China retaliated?

China has been taking a restrained approach in retaliating against US actions so far. In the first two rounds of retaliation announced on February 4 and March 4, China imposed tariffs on selected imports instead of a blanket tariff on all US imports, unlikely the US.

- Effective on February 10: An additional 15% tariffs on imports of US coal and liquefied natural gas (LNG), and additional 10% tariffs on crude oil, agricultural machinery, and large cars and pickup trucks, covering about 80 products of nearly \$14 billion. China also tightened export controls on critical minerals including tungsten-related materials and tellurium. China added two US companies to its unreliable entity list and launched an antitrust investigation into a big US tech company.
- Effective on March 10: An additional 15% duties on products including chicken, wheat, and cotton, and additional 10% duties on soybeans, sorghum, pork, beef, seafood, fruits, vegetables, and dairy products, covering about \$21 billion worth of US imports. China also added 10 American companies, which are mostly involved in defense work, to the “unreliable entity list”. It also put another 15 US defense companies on an export control list.

Possible moves from China

For now, China has remained restrained on its retaliation. Beijing is trying to avoid a significant escalation of the trade war with the US, but yet it cannot just stay quite and needs to respond in ways that are not too damaging. This is because China still needs exports as a growth engine, considering the domestic weakness that China is facing. Also, China wants to keep the calm and pay more attention into resolving its domestic issues.

Of course, we cannot rule out China taking a more aggressive approach going forward. Possible moves that China could take to retaliate against the US include further expanding export controls on critical minerals, further raising tariffs, and implementing blanket tariffs on all US imports. It can also target more American companies based on national security grounds.



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This report was completed 7/3/2025 12:39 CET and disseminated 7/3/2025 12:39 CET.

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