How Trump's tariffs will hit China

The Chinese economy is struggling with a number of problems, such as the aftermath of the property bubble, and now the trade dispute with the US has been added to the mix. We examine whether tariffs will derail the Chinese economy.

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Higher US tariffs are slowing down China's growth...

The 'truce' in the trade conflict between China and the US, initially limited to 90 days, and entailed the reduction of the previously drastically increased tariffs, have brought relief to the financial markets. However, even if the tariffs are not raised again after this period, they will remain significantly higher than before Trump took office. This would significantly reduce trade between the two countries and thus slow economic growth, particularly in China.

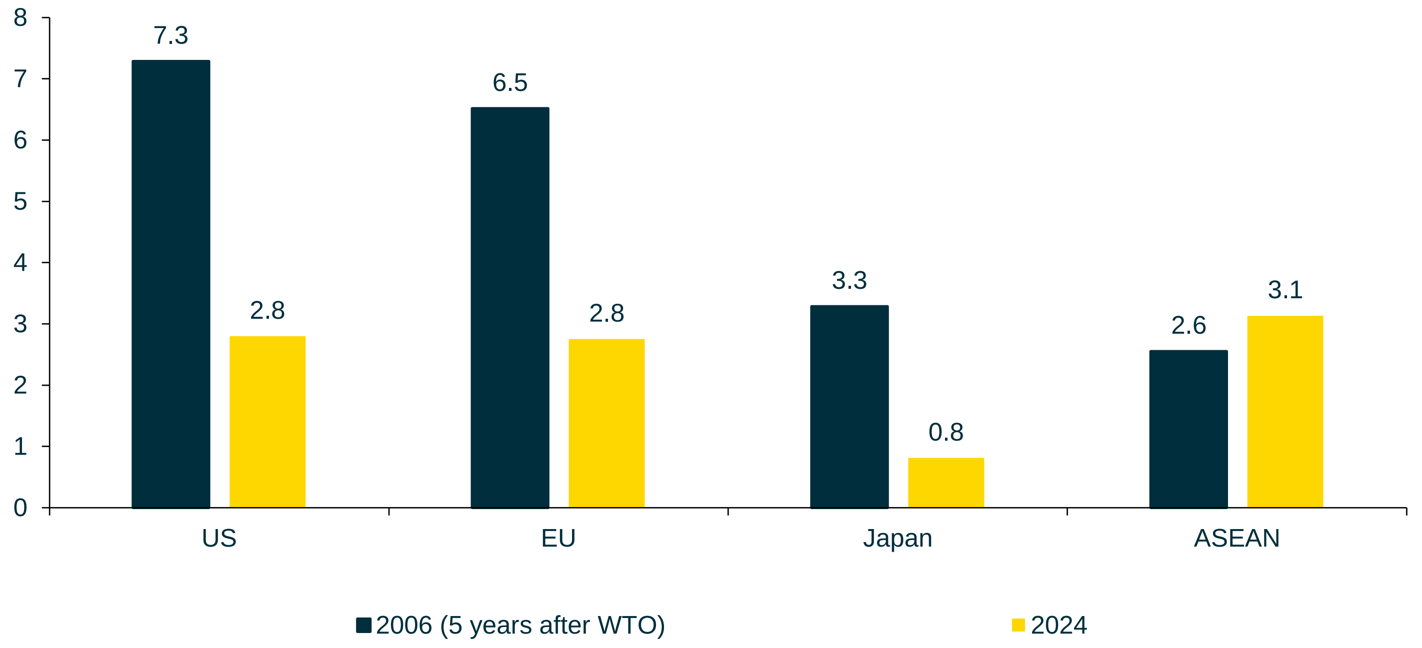
This comes at an unfavorable time for China, as exports have recently been an important driver of growth against the backdrop of continued weak domestic demand. If US tariffs on Chinese products settle at a level that is at least 25% higher than at the beginning of the year, around half of bilateral trade could be lost in the medium term, according to estimates based on trade elasticities [1].

... but China is less dependent on the US than before

However, China has been preparing for a trade conflict with the US for some time. After all, protectionist measures against China were one of the common features of the first Trump and Biden administrations. Exports to the US have also become less important for the Chinese economy due to higher tariff barriers. While these shipments still accounted for over 7% of Chinese GDP in 2006 (five years after accession to the WTO), they declined to less than 3% in 2024 (Chart 1). In any case, the importance of foreign trade in relation to overall economic output is declining, as it normal would for a wealthier economy.

Chart 1 - China's reliance on exports to the US has declined

Chinese exports by region in % of China's GDP



Source: China Customs, CEIC, Commerzbank Research

... and has also reduced its dependence on imports

China remains dependent on foreign sources for energy, key raw materials and certain agricultural products, as well as on technologies that it does not possess itself. The US in particular is increasingly restricting exports of cutting-edge technology that China still needs. For example, the Americans have imposed export controls on certain semiconductors and chip manufacturing equipment. It is also calling on its allies, particularly the Netherlands and Japan, to restrict technology exports to China. Furthermore, the US has banned investment in sensitive technologies in China and has also restricted Chinese investment in these areas in the US.

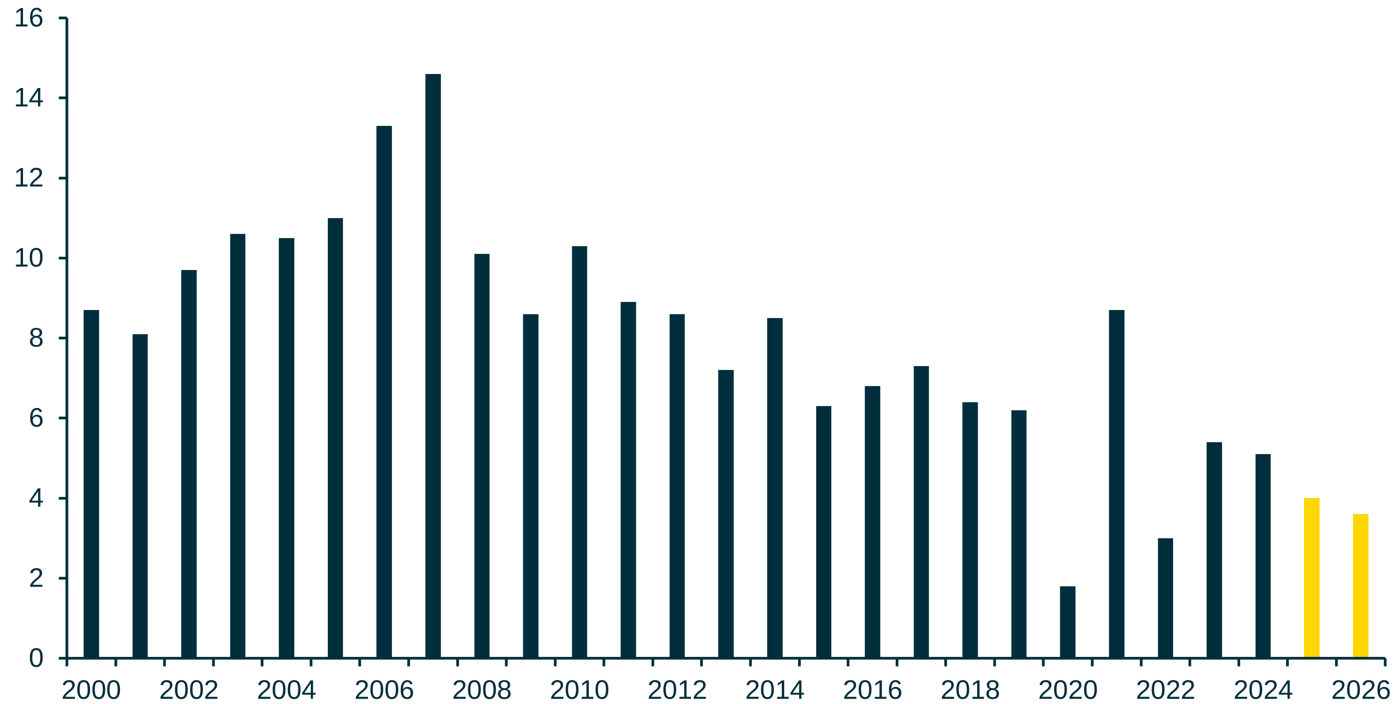
Overall, however, China's dependence on foreign – and especially American – products has declined in recent years. Imports from the US account for only about 1% of GDP, which is half as much as in 2006. This is also due to the fact that China has developed technologically – partly through technology transfer via foreign direct investment – and requires fewer capital goods from abroad.

Impact on growth: over the short term ...

The tariff shock and the foreseeable decline in export volumes are likely to dampen China's growth in the second half of the year and in 2026. We estimate that the higher US tariffs alone could reduce Chinese GDP by 1.5 to 2% by the end of next year. We think that even after the negative impact would partially be offset by policy stimulus, China's economy is likely to expand significantly weaker than last year's 5% growth, at 4% this year and 3.6% next year (Chart 2).

Chart 2 - China's economy is losing momentum

Real GDP, annual rates of change in %. As of 2025: Commerzbank forecast



Source: S&P Global, Commerzbank Research

Beijing currently sees stimulating domestic consumption as the most important measure for cushioning the negative effects of tariffs. Beijing has introduced measures to support consumption through subsidies, incentives for employment in companies, the expansion of social benefits, and the stabilization of the stock and real estate markets. However, due to ongoing domestic economic problems, such as the ongoing adjustment of the real estate market, these measures are unlikely to accelerate growth, but they should help to prevent growth from dropping drastically.

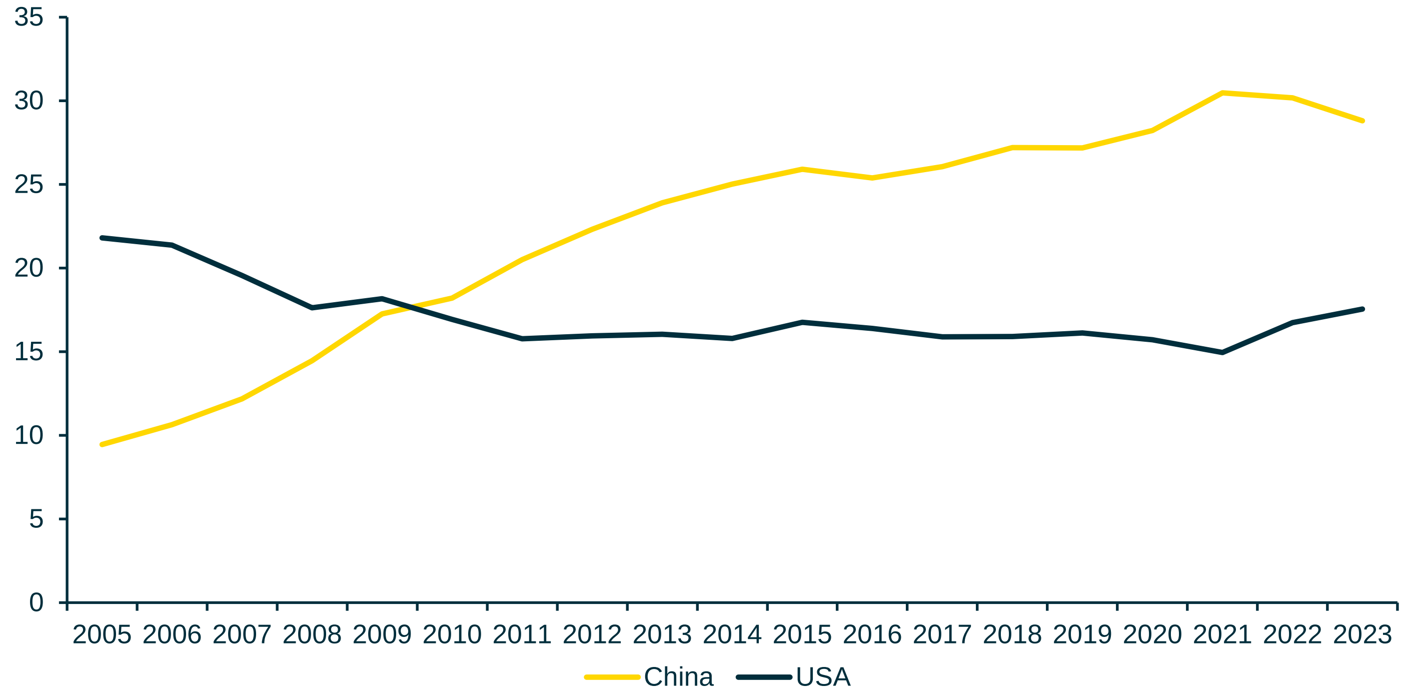
... and in the longer term

China's growth momentum has already slowed noticeably. The trade conflict, investment restrictions, and export controls by the US have already led China to strengthen its course towards self-reliance. As a result, the country is foregoing some of the advantages of the international division of labor. All in all, China is likely to experience comparatively slow growth for years to come, and the economic catch-up process will be much slower than hoped for a few years ago.

This means the US measures would achieve one of their goals, namely to slow down China's rise. However, the US will not be able to prevent China from rising further. After all, despite its remaining dependence on foreign know-how and high-tech products, China has made considerable progress. This is evident, for example, in China's dominance in battery manufacturing and the rapid increase in the production of electric vehicles. China's share of global industrial production is now around 30%, significantly higher than that of the US. The US will not be able to catch up again when it comes to the scale of manufacturing (Chart 3).

Chart 3 - China's manufacturing sector has become too big to be derailed

Chinese and US shares in global manufacturing value-added in %



Source: Worldbank, Commerzbank Research

… depends more on the domestic economy

China's economic fate will be decided by its domestic economy anyway. And here, much will depend on the development of private consumption. Private household consumption in China has been stagnating at below 40% of GDP since 2005. This is because the fruits of China's economic success have benefited private and state-owned companies and investment rather than household income and consumption. For this share to increase, as would be normal in a more prosperous economy, more decisive reform of economic and financial structures is likely to be necessary. But that is ultimately in China's hands – not in the hands of the US government.

[1] The impact on trade flows is still limited, as we recently showed based on **data on ship movements**. Bringing forward deliveries to the US and rerouting via third markets probably played a role here. However, the impact will intensify in the medium term. (back to text)

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