THE US-CHINA TRADE WAR 2.0 AND ITS IMPACT ON CHINA'S ECONOMY

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EAI Background Brief No. 1838

The new wave of US–China tariffs under Trump 2.0 has reshaped China's trade landscape in unexpected ways. Heavy manufacturing sectors like machinery and transport equipment have seen exports to the United States dive, while lighter industries such as textiles have expanded their share. Far from collapsing under US trade shocks, China's overall exports have grown, with ASEAN and other partners compensating for lost US demand, illustrating the adaptability of Chinese companies.

Macroeconomic signals are mixed: unemployment has edged down, yet manufacturing experiences strain, reflected by contractions in the Purchasing Managers' Index and Product Price Index. Patterns of inbound foreign direct investment and global supply chains are shifting, with longer-term effects on growth still uncertain and contingent on tariff magnitudes, China's countermeasures and the risk of wider trade restrictions. With weak domestic demand, China is increasingly reliant on foreign markets, raising the stakes for its global trade strategy amid ongoing tensions.

(Click on the link to read the above in Chinese, French and Spanish)

Date of Publication: 25 August 2025

***Chinese*:**

美中贸易战 2.0 及其对中国经济的影响

特朗普 2.0 时期新一轮的美中关税以出人意料的方式重塑了中国的贸易格局。重型制造业如机械和运输设备对美出口大幅下滑，而纺织等轻工业则扩大了市场份额。中国并未因美方贸易冲击而崩溃，整体出口反而增长，东盟及其他合作伙伴弥补了美国需求的减少，展现了中国企业的适应能力。

宏观经济信号喜忧参半：失业率略有下降，但制造业承压，采购经理人指数和产品价格指数均出现收缩。外商直接投资和全球供应链格局正在发生变化，对经济增长的长期影响尚不确定，取决于关税幅度、中国的反制措施以及更广泛贸易限制的风险。在内需疲弱的背景下，中国对海外市场的依赖加深，这使其在持续紧张局势下的全球贸易战略面临更高风险。

***French*:**

LA GUERRE COMMERCIALE ÉTATS-UNIS–CHINE 2.0 ET SON IMPACT SUR L'ÉCONOMIE CHINOISE

La nouvelle vague de droits de douane entre les États-Unis et la Chine sous l'administration Trump 2.0 a remodelé le paysage commercial chinois de manière inattendue. Les secteurs de la fabrication lourde, comme la machinerie et les équipements de transport, ont vu leurs exportations vers les États-Unis chuter, tandis que des industries plus légères telles que le textile ont augmenté leur part de marché. Loin de s'effondrer face aux chocs commerciaux américains, les exportations chinoises ont globalement augmenté, l'ASEAN et d'autres partenaires compensant les pertes provoquées par la baisse de la demande américaine, ce qui illustre la capacité d'adaptation des entreprises chinoises.

Les indicateurs macroéconomiques sont mitigés: le chômage a légèrement diminué, mais le secteur manufacturier subit des tensions, comme en témoignent les contractions des indices des directeurs d'achat et des prix à la production. Les flux d'investissements directs étrangers entrants et les chaînes d'approvisionnement mondiales évoluent, avec des effets à long terme sur la croissance encore incertains. Ceux-ci dépendent du niveau des droits de douane, des contre-mesures chinoises et du risque de restrictions commerciales plus larges. Avec une demande intérieure faible, la Chine dépend de plus en plus des marchés étrangers, ce qui soulèvent des questionnements quant à sa stratégie commerciale internationale dans un contexte de tensions persistantes.

Spanish:

LA GUERRA COMERCIAL EE.UU.-CHINA 2.0 Y SU IMPACTO EN LA ECONOMÍA CHINA

La nueva ola de aranceles entre Estados Unidos y China bajo Trump 2.0 ha transformado el panorama comercial chino de maneras inesperadas. Sectores de manufactura pesada como maquinaria y equipos de transporte han visto caer sus exportaciones a Estados Unidos, mientras que industrias ligeras como el textil han ampliado su participación. Lejos de colapsar por los impactos comerciales de EE.UU., las exportaciones totales de China han crecido, con la ASEAN y otros socios compensando la pérdida de demanda estadounidense, lo que demuestra la capacidad de adaptación de las empresas chinas.

Las señales macroeconómicas son mixtas: el desempleo ha disminuido ligeramente, pero la manufactura está bajo presión, reflejado en contracciones del Índice de Gestores de Compras y del Índice de Precios al Productor. Los patrones de inversión extranjera directa y las cadenas globales de suministro están cambiando, con efectos a largo plazo sobre el crecimiento aún inciertos y dependientes de la magnitud de los aranceles, las contramedidas de China y el riesgo de restricciones comerciales más amplias. Ante una débil demanda interna, China depende cada vez más de los mercados extranjeros, lo que eleva los riesgos para su estrategia comercial global en medio de las tensiones persistentes.

Executive Summary

1. Trade War 2.0 has sharply curtailed China's heavy manufacturing exports like machinery and transport equipment, while textile sectors remain resilient. Despite the trade shocks, China's overall exports grew, driven by strategic trade diversification to ASEAN, underscoring China's adaptability.

2. Trade War 2.0 began in early 2025 with the "fentanyl tariff" before escalating to "reciprocal tariff" and record tariff hikes of 150% by the United States and 125% by China. The truce reached on 12 May reduced most tariffs, leaving a 10% reciprocal rate, with the average US tariffs on Chinese goods at 51.1%.

3. US tariff policy reflects Trump's "America First" push for revitalising domestic manufacturing and bipartisan resolve to curb China's rise.

4. Unlike its predecessor, Trade War 2.0 is global, intensifying geopolitical complexity and forcing countries into a "prisoner's dilemma" of either collective retaliation or individual accommodation with the United States.

5. US tariffs slashed China's exports to the United States by 21.0% in April and 34.5% in May 2025 compared to that in 2024. However, China's overall global exports unexpectedly increased, growing by 8.1% in April and 4.8% in May, year on year. This highlights China's effective trade diversification and market agility.

6. The Association of Southeast Asian Nations (ASEAN) proved pivotal, with Chinese exports to the bloc rising over 20% in April and nearly 15% in May 2025, effectively absorbing US market shock.

7. Macroeconomic data reveals mounting manufacturing stress. The Purchasing Managers' Index (PMI) entered contraction, while a declining Producer Price Index (PPI) points to acute oversupply and growing deflationary pressures.

8. Economic resilience stems from a prosperous service sector and strong consumer activity. Falling unemployment and rising electricity generation suggest that services have offset manufacturing shock.

9. The fiscal stimulus of over RMB4.4 trillion, using subsidies and coupons, have boosted domestic consumption and bolstered the service sector against trade war impact.

10. The trade war intensifies China's industrial overcapacity, diverting exports to other markets and triggering anti-dumping measures from partners like the EU.

11. Foreign Direct Investment impacts are expected to be less severe than in the first trade war as many multinational firms have already adopted "China+1" strategies and the global tariff war also reduces incentives for relocation.