

Beijing Hits Back

April 4, 2025

KEY POINTS

- In response to Trump's Liberation Day action, China announced **about a dozen countermeasures**. US-China relations are sailing into deeper uncharted waters at a time when there is **a dearth of senior-level engagement**.
- Beijing's choice of retaliatory measures has **strategically targeted Trump's political supporters** as well as economically and technologically sensitive sectors.
- Trump announced today that he would **extend the deadline of a ban on TikTok by 75 days**, expressing his "hope to continue working in good faith with China," a sign that China has played "hardball" on TikTok and that other negotiations will be difficult.
- **Fentanyl, TikTok, Chinese purchase of agricultural products, Beijing's dominance on critical minerals and its unique role in the Russia-Ukraine war** are among the many issues that could complicate a deal between the US and China.
- Trump's tariffs will cause China's economy to face growing downside pressures, likely leading Beijing to **introduce greater stimulus measures to stabilize exports and further boost domestic consumption**.
- Even if the US and China can negotiate a reduction in tension, **we believe US-China relations will continue to be turbulent**.

BEIJING'S RETALIATION

On a public holiday when Chinese capital markets were closed, **Beijing hit back against President Donald Trump's "Liberation Day" move** that would apply a 34% reciprocal tariff on Chinese products. Investors' fears about an escalated US-China trade war and a global economic recession led the Dow Jones Industrial Average to dive 2,231 points today and the Nasdaq to slump 20% from its peak. **US-China economic and trade relations are sailing into deeper uncharted waters**.

China's retaliation **ignored a warning by US Treasury Secretary Scott Bessent** right after Trump's tariffs announcement: "My advice to every country right now is: Do not retaliate. Sit back, take it in, let's see how it goes." Trump's executive order made clear that he might raise tariffs further should countries retaliate.

Trump **reacted in a Truth Social post**: saying "CHINA PLAYED IT WRONG, THEY PANICKED — THE ONE THING THEY CANNOT AFFORD TO DO!"

Beijing's countermeasures include **a reciprocal tariff rate of 34%** applied to all American imports on April 10; **export controls on rare earths**, and an expanded unreliable entity list. **DuPont China** joined Google and Nvidia in facing antitrust probes. Beijing is also targeting **US agricultural and meat producers** that are important to President Trump and the Republican Party. For example, **Mountaire Farms of Delaware, Inc., whose CEO Ronald Cameron has been a top Trump donor**, is among firms suspended by Beijing from exporting poultry products as well as meat bone meal to China.

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In the critical minerals sector, China placed **seven categories of medium and heavy rare earths** on its export control list, effective immediately. The materials are widely used in industries such as defense, electric vehicles and electronic products, affecting the supply chains of US companies such as **Tesla, Apple and Lockheed Martin**.

“WHO BLINKS FIRST”

President Xi Jinping’s reaction today officially **kicked off the “Who Blinks First” game** with Trump. By presenting an **unwavering determination** to not back down from what Beijing called US “bullying,” Xi may hope to force Trump to soften his stance amid rising US inflationary pressures, a sinking stock market, and the risk that Beijing may refuse to support Trump’s thus far unsuccessful peace-making efforts in the Russia-Ukraine war.

Meanwhile, Trump’s reciprocal tariffs applied to friends and foes alike have **enabled Beijing to claim the moral high ground and position itself as a more responsible leader** in the global arena. Beijing clearly sees an opportunity to enhance its global influence as Washington’s positioning weakens.

DELAYED TIKTOK DEAL

Based on the current plan, Trump’s 34% tariffs would bring average tariffs for Chinese goods to about 76%. **A major compromise is unlikely to be reached in the near term.** Beijing’s retaliatory tariffs, as Capital Economics wrote in a note, **“may appear timed to give Trump an opportunity to de-escalate ahead of the 9th April tariffs start date,** but a near-term deal to end the US-China trade war now looks even more out of reach.”

Should both sides wish to talk, the issues are numerous and complex: fentanyl; TikTok; Chinese imports of agricultural products; Beijing’s dominance over critical minerals; US export controls; not to mention Taiwan and China’s role in the Russia-Ukraine peace talks.

One sign of how difficult negotiations are likely to be is the fact that **Trump was unable to reach a deal by April 5 to spin off TikTok’s US operations into a new company** to be controlled by US investors. Reuters [reported](#) that Beijing, after Trump’s reciprocal tariffs announcement, refused to approve a TikTok deal that had been largely finalized, forcing Trump to delay the deadline for a TikTok ban to mid-June.

Trump said today that the TikTok deal “requires more work to ensure all necessary approvals are signed.” **In the clearest sign so far that he may be anxious to sit at the negotiation table with Beijing,** Trump said: “We hope to continue working in good faith with China, who I understand is not very happy about our reciprocal tariffs.”

However, we should note that Trump’s *modus operandi* does not preclude claims that may not be entirely true. It is conceivable that, facing an apparently implacable opponent and markets that are plunging, Trump may decide to buy some time by claiming that negotiations with Beijing on fentanyl and other matters are making progress and he is therefore reversing or halting some of the tariffs.

ECONOMIC IMPLICATIONS

Since the Phase One trade war, Chinese exporters have **significantly reduced their reliance on the US market through diversification** to other countries, such as markets in Southeast Asia and Latin America. The US’s share of total Chinese exports [declined](#) from 19.2% in 2018 to 14.7% in 2024. **But still, no other countries buy more from China than the US,** which [imported](#) \$438.9 billion worth of goods from China last year.

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Given its greater dependence on exports, economists judge that an escalated trade war could hurt China's economy more severely than the US. The Chinese government, in the case of an escalating trade war, may have to dramatically **expand fiscal and monetary stimulus to boost domestic demand** and roll out measures to stabilize the export sector.

The Trump administration also **announced** that the US is **ending the de minimis exemption for Chinese imports, which would deal another blow to Chinese exports**. In 2024, China's cross-border e-Commerce accounted for 5% of China's total exports, **including** \$22.8 billion in *de minimis* goods to the United States, China's largest destination for such small-value parcels, according to PRC statistics. (The actual number is likely to be much higher.)

Cooling global demand could be a further drag on Chinese exports. Vietnam, for example, was hit with a 46% US "reciprocal" tariff, which will disadvantage the many Chinese exporters that have shifted manufacturing facilities to the country to avoid US Section 301 tariffs. Meanwhile, Chinese products, such as electric vehicles, have already faced setbacks in regions such as the European Union. **Investment bank JP Morgan now expects a 60% chance of a global economic recession by the end of this year, up from 40% previously.**

Another risk is that other countries may set higher trade barriers against China in return for softer treatment by Trump. Treasury Secretary Scott Bessent in early March **urged** Canada and Mexico to match US tariffs on China so that they could face more lenient treatment by Washington. **Meanwhile, the global trade landscape may be reshaped.** Countries such as Brazil may benefit from the US-China trade war by shipping more soybeans to China and critical minerals to the United States.

US-CHINA RELATIONS

Senator Steve Daines recently filled a small gap in the huge void of US-China senior engagement since Trump's inauguration, as US Secretary of State Marco Rubio continues to be subject to Beijing's sanctions, and whatever conversations have taken place between Chinese leaders and US cabinet secretaries appear to have been perfunctory. During Daines' late March visit to Beijing, **the close ally of President Trump emphasized the importance to the US of dealing with the fentanyl crisis,** an area where a compromise could potentially be made by Beijing, which could lead to a US tariff reduction. Trump also indicated **his willingness to cut tariffs should Beijing allow TikTok to strike a deal with US investors.** Both cases would have political value for Trump vis-à-vis his political base.

President Trump's nominee for US ambassador to China, David Perdue, faced minimal resistance at his confirmation hearing on April 3 held by the Senate Foreign Relations Committee. **The cousin of former US Secretary of Agriculture Sonny Perdue** may play a role in bridging bilateral business engagement after his expected confirmation as the top envoy to China, even though he has recently hardened his positions on China. The former **Dollar General's CEO and top executive at Sara Lee and Reebok** had extensive business experiences in Asia, including Hong Kong.

However, **Trump is likely to continue to prefer direct engagement with President Xi.** Whether the two leaders may meet in mid-June to celebrate their birthdays together remains a big uncertainty.

WHAT'S NEXT

How President Trump reacts to Beijing's retaliation in the next few days may provide clues about the future of bilateral relations as well as the global economic outlook. Regardless, we anticipate that **relations between the US and China will remain highly contentious.**

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In the coming months, **the Trump administration may further raise tariffs on semiconductor, pharmaceuticals and critical minerals**, increase outbound investment controls into Chinese high-tech sectors, intensify scrutiny on Chinese companies' investments in the US, act against China's intellectual property practices, and **even revoke the Permanent Normal Trade Relations status for China**.

For its part, China recently rolled out regulations to strengthen the implementation of the Anti-Foreign Sanctions Law. The government **has also reportedly held off from approving new US investment plans submitted by Chinese companies**. More American firms may be blacklisted or face antitrust investigations. Amid the US Section 301 investigation into China's dominance in shipbuilding, Beijing has also **launched** an investigation into Hong Kong tycoon Li Ka-shing's business, preventing him from proceeding with a deal to sell ports in Panama and 22 other countries to US investors. **The comprehensive list of China's counteractions may continue to expand.**

China's countermeasures introduced today are summarized below:

- The Ministry of Finance (MOF) will **impose** a 34% tariff on all US imports starting April 10; Goods shipped before 12:01 PM on April 10 and arriving between that time and 24:00 on May 13 will be exempted from the additional tariffs;
- The Ministry of Commerce (Mofcom) **announced** export controls on medium and heavy rare earths, effective immediately;
- Mofcom also **announced** immediate export controls of dual-use items to 16 US firms;
- Mofcom **launched** anti-dumping probes into medical CT X-ray tubes from the US and India;
- Mofcom also **launched** an industrial competitiveness investigation into all imported CT X-ray tubes;
- Mofcom **added** 11 American companies, including defense, AI, and drones makers, to its unreliable entity list;
- China's market regulator **initiated** an antitrust investigation into DuPont China;
- China's Customs **halted** imports of poultry products from two American companies;
- The Customs also **suspended** imports of sorghum from one US firm;
- The Customs **halted** imports of meal made from poultry meat and bones, used as animal feed, from three US firms;
- Mofcom **initiated** a dispute case at the WTO, charging that the US reciprocal tariffs violated WTO rules.

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