

McLarty Update: US and China Announce Initial Trade Deal

May 12, 2025

TOPLINE

After months of unprecedented trade escalation, a near-embargo of trade between the United States and China, and mutual recriminations between the two sides, the US and China agreed to a mutual ceasefire, reducing tariff rates on both sides by 115%. The agreement was remarkably light on “wins” for either side, beyond the clear imperative for both leaders to reduce tariffs to address significant domestic economic and political pressure in their respective countries.

The agreement represents the first high-level joint statement between the US and China during the second Trump administration and sets the stage for future communication between Washington and Beijing on further lowering trade tensions and stemming fentanyl flows.

The terms of the deal were similar to those the US has offered to other nations – a 90-day window in which to negotiate favorable terms, though it seems highly unlikely that President Trump intends to ever return to the high of 145% tariffs in place since April 10. In comments delivered today from the Oval Office, Trump confirmed his biggest goal was to enable US “businesses [to] go in and compete – and compete with China,” making clear his intention for a deal that enables trade between the two nations.

TERMS OF THE DEAL

Under the terms of the deal, the US will:

- Maintain existing Section 301 tariffs (impacting over US \$300 billion in trade)
- Maintain 20% IEEPA tariffs targeting fentanyl flows
- Maintain the 10% universal baseline IEEPA tariff, while reducing the full reciprocal tariff rate on China by 115%
- Maintain Section 232 tariffs on autos, steel, and aluminum (these tariffs do not stack upon 20% and 10% IEEPA duties)

Outside of the 115% mutual duty reductions, **China committed to adopting “all necessary administrative measures” to remove or suspend non-tariff countermeasures taken against the US since April 2.** The ambit of these suspensions has not been clarified, but may apply to the below measures:

- April 4: The Ministry of Commerce (MOFCOM) announced export controls on seven types of medium and heavy rare earths
- April 4: MOFCOM announced export controls on 16 US firms
- April 4: MOFCOM launched anti-dumping probes into medical CT X-ray tubes from the US and India, and an industrial competitiveness investigation into all imported CT X-ray tubes
- April 4: MOFCOM added 11 US defense companies to its Unreliable Entity List (UEL)
- April 4: The State Administration for Market Regulation (SAMR) initiated an antitrust investigation into a US chemical manufacturing company
- April 4: The General Administration of Customs (GAC) halted imports of poultry products from two American companies, Mountaire Farms of Delaware, Inc. and Coastal Processing, LLC
- April 4: GAC suspended imports of sorghum from US agricultural company American Proteins, Inc.
- April 10: The National Film Administration announced it would reduce US movie imports
- April 11: Chinese airlines were reportedly ordered to halt the acquisition of Boeing planes

China has yet to announce which of these measures, if any, will be taken down in response to its non-tariff barrier (NTB) elimination commitments. The majority of these NTBs were not publicly described by their agencies as direct countermeasures to US reciprocal tariffs, granting authorities some discretion on how they may choose to amend the retaliatory actions. **Beijing may offer more clarity in the coming days, or it may also stay intentionally vague to gain more leverage in the upcoming negotiations.** On the rare earth export controls, for example, the Chinese conservative news platform Guancha.com [published](#) an article pointing out that the measure has been “continuing,” without elaborating.

WHAT WAS LEFT OUT (AND IS STILL BEING NEGOTIATED)

Several trade and security items, some of which were [reportedly](#) on the table for negotiation before the talks began this weekend, were not directly addressed by the 90-day pause and NTB revocation commitments:

- **Fentanyl Talks Separated from Reciprocal Trade:** The White House [stated](#) that the US and China will “take aggressive actions” to stem fentanyl and illicit drug precursor flows into North America, **which USTR Greer later [said](#) would be “on its own track.”** Although it is not immediately clear who may lead such conversations on fentanyl controls for the US, Chinese Public Security Minister Wang Xiaohong and Vice Minister Xu Datong were in the [delegation](#) for the Geneva talks and are likely to lead fentanyl communications from the Chinese side. In the meantime, the White House said that 20% IEEPA tariffs on fentanyl would stand for now.
- **Chinese Energy, Agriculture, Machinery Tariffs to Remain:** Although not specified by the US-China joint statement, **China is all but assured to maintain retaliatory duties against the US for the 20% IEEPA tariffs targeting fentanyl imposed in February and March.** Such measures include 15% tariffs on chicken, wheat, corn, and cotton products and 10% tariffs on sorghum, soybeans, pork, beef, seafood, fruit, vegetable, and dairy products ([March 10](#)), as well as 15% retaliatory tariffs on coal and LNG and 10% tariffs on crude oil, agricultural machinery and large-engine vehicles ([February 10](#)).
- **China’s Fentanyl-Focused NTBs to Remain:** In addition to China’s tariff countermeasures to US IEEPA tariffs focused on fentanyl, **China’s NTBs established in retaliation for the IEEPA tariffs will also remain in place.** Such retaliation includes the [addition](#) of multiple companies to MOFCOM’s Unreliable Entity List, a SAMR antitrust [investigation](#) into a US tech leader, [export bans](#) on US companies manufacturing dual-use products, and agriculture import license [suspensions](#) for US companies.
- **Section 301 and 232 Tariffs Remain in Place:** The White House [clarified](#) in its fact sheet that **Section 301 and 232 tariffs will not be impacted by the 90-day duty reprieve.**
 - Practically, this implies that Section 301 tariffs on roughly [\\$250 billion](#) of Chinese goods imposed during President Trump’s first term, [\\$18 billion](#) on Chinese imports during the Biden administration, and [impending](#) port entrance fees on Chinese-built ships will remain in place. Future Section 301 actions on Chinese [ship-to-shore cranes/cargo handling equipment](#) as well as [legacy semiconductors](#) will proceed as planned.
 - This carveout also suggests that current Section 232 tariffs on [steel and aluminum](#) and [automobiles and auto parts](#), as well as ongoing 232 investigations on pharmaceuticals, semiconductors, copper, critical minerals, lumber, trucks, and commercial aircraft products will still eventually apply to Chinese-sourced imports.

For a full list of China’s tariff and non-tariff retaliation to US trade policy under the Trump administration, see [here](#).

THE PATH FORWARD

The Geneva talks **represent a solid start for the US-China bilateral trade talks over the next 90 days. Beijing has largely reached its stated goal for the Geneva meeting: to secure the same 90-day reciprocal tariff relief granted to other US trade partners.** The détente has also caused the US stock

market to [soar](#), even though investors continue to wait for clarity on which NTBs Beijing will roll back and what the agenda for future trade talks will be.

Still, the two sides will struggle to reach a clear, comprehensive trade deal within the new 90-day timeframe, which closes on August 12, not least of all because what the Trump administration seeks to achieve in future trade talks with China remains murky. As we pointed out in our previous [memo](#) previewing the Geneva meeting, **the two countries face thorny and seemingly irreconcilable issues** including fentanyl, the possible revocation of the US-China bilateral income [tax treaty](#), China's industrial overcapacity, bilateral science and academic collaboration, and national security concerns.

The talks also did not publicly yield clear progress on conditions for tariff exemptions, agricultural product purchase commitments, follow-up issues in the [Phase One](#) trade agreement, and ongoing tech and critical minerals export controls.

There remains much to be done by the “**working level**” **mechanism the two sides agreed to create in order to continue discussions about economic and trade relations**, led by Vice Premier He Lifeng, Treasury Scott Bessent and USTR Jamieson Greer. China's Vice Commerce Minister and top trade negotiator **Li Chenggang**, who most recently led trade negotiations for China at the WTO, and **Vice Finance Minister Liao Min**, who attended the Phase One trade negotiations with the US, will assist He in the trade talks. How such consultations proceed will determine prospects for US-China leader-level talks in the near future.

President Trump said today that he and President Xi may speak towards the end of this week. If that happens, US-China relations will get another positive boost, perhaps even with an echo of their January 17 [phone call](#), when president-elect Trump said, “As the most important countries in the world, the United States and China should get along well for years and beyond and work together for world peace.”