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The Trade War Couldn't Change China's Economy

American hopes for political reform in China faded years ago, and now hopes for economic liberalization are fading too.

By Jonathan Cheng Follow *and Jason Douglas* Follow

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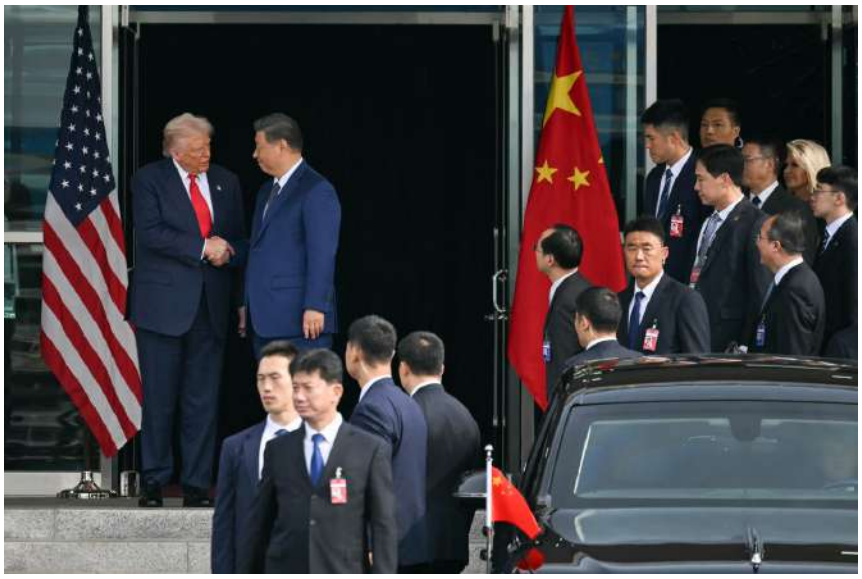

Trump and Xi shake hands after leaving trade talks on Oct. 30, their first face-to-face meeting in six years. ANDREW CABALLERO-REYNOLDS/AGENCE FRANCE-PRESSE/GETTY IMAGES

President Trump and Chinese leader Xi Jinping have walked back from the ledge—again. But even as the world's two superpowers deescalate a trade fight that had threatened to destabilize the global economy, a new reality is setting in—that Washington may finally have to give up on its long-standing aim of pushing Beijing to restructure its economy.

For years and through successive U.S. administrations, senior officials in Washington had hoped

that bringing China into the global trading system would open up the country's political system. In the decades since China's accession to the World Trade Organization in 2001, those hopes of political liberalization have largely been dashed. The sense of disappointment has only grown as Chinese leader Xi Jinping, who took power in late 2012, has tightened his control over the domestic political system and civil society more broadly.

Still, many in President Trump's circle of senior advisers had held out hope for China's economic liberalization. White House officials spoke of using America's economic might to move China away from what they regarded as a mercantilist trade policy that privileged exports, subsidized manufacturing and discouraged its own 1.4 billion people from spending.

U.S. strategists imagined that tariffs would squeeze exports and encourage China to find new sources of growth at home, perhaps by overhauling its health and social welfare systems to allow consumers to spend more and save less. By pressuring Beijing to boost consumption, the idea went, China would start buying more goods from the U.S. and the rest of the world, its trade surplus would shrink and U.S. businesses and farmers could tap a consumer market of unparalleled potential.

But while Trump's first-term tariff assault resulted in Chinese pledges to buy more American-made goods, it didn't accomplish any of these larger structural aims. The Biden administration, though rhetorically committed to many of these broader economic liberalization goals, focused most of its efforts on constraining China's technological ambitions.

This time around, Trump's sky-high tariffs have failed to move China. Unlike virtually every other trading partner hit with tariffs, Beijing retaliated with stiff countermeasures of its own, using its grip on rare-earth metals to bludgeon American companies that rely on the critical minerals, while halting purchases of U.S. soybeans in a bid to punish America's agricultural sector.

Workers produce electronic components for export in Suqian, China, March 2025. China remains ideologically attached to industrial production as the wellspring of prosperity. XU CHANGLIANG/DDP/ZUMA PRESS

China's "shock and awe" approach left the two superpowers mired in months of a tactical tit-for-tat, resulting in dramatic displays of brinkmanship and Thursday's meeting between Trump and Xi—but leaving big-picture American concerns about China's economic structure unaddressed.

"Trade talks with China this time around are more focused on stabilizing the relationship versus advancing it by addressing structural matters, which appears to be a lost cause," said Wendy Cutler, a former U.S. trade negotiator now at the Asia Society Policy Institute in Washington.

With the two sides bogged down in horse-trading on tariffs and critical minerals, structural matters have been entirely set aside, Cutler added. "The reality is that deescalation has become the objective of the trade talks with China, rather than breaking new ground."

Even today, some Chinese officials acknowledge that the country's consumption is too weak and nod to the desire for some rebalancing. Yet efforts have been piecemeal, stymied by an ideological attachment to industrial production as the wellspring of prosperity and wariness of the painful reforms—in taxation, healthcare and social welfare—needed to make a durable shift.

When Trump was first elected in 2016, the U.S. adopted a more aggressive approach to force the issue, threatening a trade war that sought in part to change China's model. But rather than adopt the Western prescriptions, Beijing took advantage of Trump's exit from the Oval Office to instead make itself more impervious to pressure from Washington.

Beijing systematically identified perceived "chokepoints"—that is, sectors where it was reliant on the U.S.-led West—and worked to disarm Washington's points of leverage. China did this by building up domestic industries, developing alternative sources for scarce inputs and carefully husbanding its strengths in areas where they saw a chance to seize control.

More broadly, China has shifted its manufacturing model toward components and not just finished products—a change that has more deeply embedded the country in global supply chains, said Dinny McMahon, head of markets research at Trivium China, a research and consulting firm.

An Illinois farmer holds soybeans during harvest, Oct. 17, 2025. China halted its purchases of U.S. soybeans in a bid to punish America's agricultural sector. CHRISTOPHER DILTS/BLOOMBERG NEWS

"Xi Jinping has been talking about this since at least 2019—strengthening global supply chains," McMahon said. Now, he said, "almost any manufactured good you buy, no matter where it comes from, has some exposure to Chinese supply chains."

By finding ways to effectively hit back against the U.S., Xi forced Trump repeatedly onto the defensive—and in the process, established China as a peer rival to the U.S., able to defy the world's longtime superpower on trade, technology and, increasingly, geopolitics.

"The U.S. has very little ability to influence China's macroeconomic strategy," said Oliver Melton, a director at China-focused consulting firm Rhodium Group. "They have a different ideological understanding of what causes growth and economic development."

Whether Beijing sticks to its current program—of pursuing manufacturing and technological dominance at all costs—will resonate far beyond China's shores. Already, Chinese import growth has stagnated, and its surplus in goods has ballooned to more than $1 trillion. China has refused to cede significant ground in lower-value manufacturing to less developed economies, even as it gains expertise in making cars, aircraft, chips and other high-value goods.

The result, said Eswar Prasad, a professor of trade policy at Cornell University and a former head of the IMF's China division, is that China is stifling manufacturing in other countries, whether they're poorer economies trying to nurture a domestic factory sector or advanced economies facing a growing competitive threat. Trade barriers to Chinese goods are rising, and its own economy is menaced by deflation, the outgrowth of its rampant production.

"In the absence of aggressive reforms to restructure the economy, China's growth will slow while friction with its trade partners will increase," said Rhodium's Melton, who recently wrapped up five years as the U.S. Treasury Department's financial attaché in Beijing.

When Beijing released the blueprint for its next five-year plan earlier this month, it made clear it has little intention of deviating from a path that has, in Beijing's eyes, worked exceptionally well. Chinese leaders reemphasized their commitment to technological self-sufficiency, pledging to pour more investment into advanced manufacturing and boosting exports.

If anything, the trade war has taught China the opposite of what the U.S. had hoped. Rather than prod Beijing to rebalance the economy, it showed Xi how essential it is for China to reduce its reliance on the U.S. in critical areas such as semiconductors and to develop economic weapons that allow it to hit back, such as its stranglehold on rare earths, said Henry Farrell, a professor of international affairs at Johns Hopkins School of Advanced International Studies.

That calls for more industry-led growth, not less. China's goal, Farrell said, is to "maximize its freedom to do what it wants to do without the United States being capable of determining its destiny."

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