Trump's tariff blitz could hardly have come at a worse time for China

Beijing is remaining defiant in the face of President Donald Trump's trade measures, but it will have to take some sort of action to shore up its weak economy.

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By Lily Kuo

By imposing tariffs of 145 percent on all Chinese goods, President Donald Trump has effectively launched a trade embargo on the world's largest exporter.

It could hardly have come at a worse time for Beijing.

Exports have been a rare bright spot in an economy struggling with a property market slump, high youth unemployment and domestic spending that is so weak it threatens to turn into a deflation crisis.

The hit to exports also threatens the legacy of Chinese leader Xi Jinping, who is trying to transform his country from the world's factory into an advanced manufacturing and technology superpower — a delicate transition that could be thrown off by this bruising trade war.

In less than a week, the world's two largest economies have progressively upped the ante to a point where their respective import duties are at historic highs. All American shipments to China are now subject to tariffs of at least 125 percent, while the goods that China sells to the United States each year will face a levy of 145 percent.

The president's sights are set squarely on China, which has refused to cave to his demands and said Friday that it was ready to "fight to the end." Even as other countries were granted a 90-day reprieve from some of Trump's "Liberation Day" tariffs on Wednesday, Beijing was hit with an additional levy, effective immediately. China punched back with more tariffs Friday, to take effect Saturday.

China produces far more goods than Chinese households or companies can buy, and it exports the rest, resulting in a global trade surplus of almost $1 trillion last year as it shipped electronics, chemicals, toys and furniture to the United States and other countries.

"That's a lot of stuff trying to find a home," said Mark Williams, chief Asia economist at Capital Economics, a consultancy. "China's economy is more reliant on exports now than at any time during the global financial crisis. We've seen that export demand has become more and more important to sustaining growth in China."

Now China's ability to achieve this year's growth target of "around 5 percent" is in doubt. Citing the tariffs, investment bank Goldman Sachs on Thursday lowered its forecast for China's GDP growth this year to 4 percent. Some analysts are predicting the trade war could cut that rate in half.

Economic data published Thursday showed consumer prices continued to slide in March, a sign that deflation persists as consumers hold back from spending and businesses drop prices to try to compete for customers.

"So far China has been relatively strident, but the reality is that they are on the back foot," said Eswar Prasad, a professor of trade policy at Cornell University.

Electronics, machinery, furniture and toys accounted for more than half of Chinese shipments to the U.S. last year, according to Chinese customs data. Exporters in China's manufacturing belt in the south are already feeling the brunt.

Aron Gu, a 27-year-old owner of a family-run shoe-material factory in Guangdong province, said he has lost 80 percent of his orders in the last three days.

"Not all my clients are in the U.S., but in the trading business, you can't avoid the U.S. market. In the end, it is the world's biggest spender," he said. With no incoming orders, Gu has put most of his 100-plus employees on unpaid leave.

"To me, Trump's tariffs are childish and irrational," Gu said. "Does he really believe bringing manufacturing back to the U.S. will benefit the country? All I can say is, this tariff war has deepened my anxiety about the future of my business."

Chinese officials like to point out that Beijing has had time to prepare for what is its second trade war with Trump, who raised tariffs on China in 2018 and eventually struck a deal with Beijing in 2020. Today, the U.S. accounts for about 15 percent of China's total exports, down from almost 20 percent in 2017.

Still, Chinese exports to the United States amounted to more than $400 billion in 2024, or about 3 percent of China's GDP, which analysts say is nothing to sneeze at.

“U.S. trade is less important now than it was in 2017, but this does hit the Chinese economy at a very bad time,” said Joerg Wuttke, former president of the European Union Chamber of Commerce in China.

Another risk for China is that back doors to the U.S. market — routing goods through third countries such as Vietnam or Mexico — are likely to be Trump’s next target. That means an avalanche of goods will have to find new markets.

“They sell $500 billion worth of goods to the U.S., and they need to sell that somewhere else — to Europe or the Global South. That is going to mean a tsunami of exports, and they could start seeing trade barriers go up in those other places,” Wuttke said.

Still, there were signs of optimism in China even after Trump’s 145 percent tariffs went into effect. China’s shares closed higher on both Thursday and Friday as Trump’s partial rollback of his tariffs lowered the risk of a U.S. or global recession.

“As long as there’s a stable global economy, Chinese companies can benefit from it,” said Guo Shan, a partner at Hutong Research, a Chinese advisory firm.

“From Beijing’s perspective at this point, it’s not about competing for exports. Rather, global economic stabilization is more important, because if we’re having a global financial crisis, it will probably hit China harder than just the tariffs.”

Analysts say that while the hit to exports would hurt, China has the tools to cushion its economy from the worst of Trump’s attacks by bringing forward or ramping up already planned stimulus. Those measures — child-care subsidies for families, support for pensions or expanding a trade-in scheme for residents to upgrade their electronics and other items — could come as soon as the end of this month when a high-level meeting of senior leaders is expected.

An editorial in the ruling Chinese Communist Party’s paper, the People’s Daily, this week suggested other measures were on the table, like cutting interest rates or reducing the amount commercial banks are required to hold in reserve, which would encourage more lending to Chinese companies.

“The higher the tariffs, the greater China’s determination to launch a bigger stimulus package,” said Yue Su, principal economist for China at the Economist Intelligence Unit.

As Trump’s pressure campaign on China continues, analysts expect retaliatory measures that go beyond tariffs. The president could expand U.S. export controls on things like advanced semiconductors — as the Biden administration did — or machine tools and biotechnology equipment. This would hit China even harder.

“For China, it is not so much trade as access to U.S. technology that is important,” said Bert Hofman, a former World Bank country director for China. “If restrictions on technology exports are further sharpened, this would in the short run be more disruptive for China’s development.”

Katrina Northrop and Vic Chiang contributed to this report.