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Standing firm and reducing reliance on the US: how China is handling Trump's trade war

by Yu Jie

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KEY TAKEAWAYS

- China's responses to the second Trump administration consist of two long-term strategies and a set of short-term negotiation tactics. Long-term, Beijing has pivoted its economy, driven by domestic innovation, and is expanding its capabilities in strengthening its critical mineral supply chain. It has diversified its trade and diplomatic engagements with non-Western countries.

- China has adopted stalling trade negotiation tactics with Washington as Beijing aims to bide the time to focus on economic rebalancing and breaking technological chokepoints. Sticking points in the ongoing trade talks have prompted both a new line-up in China's negotiation team and a shift in the institutional balance of power in Beijing.

- China has also taken a 'carrot and stick' approach to communicate with its other major trading partners, including the EU, other traditional allies of the US and most parts of the Global South. It pays close attention to trade talks between other third countries and the US as to whether they have agreed a 'China clause' that would harm Beijing's interests.

Keywords

China-US trade war

Export Controls

Tariff

Rare Earths

Chinese Elite Politics

Introduction

While the rest of the world is still adjusting to US president Donald Trump's 'reciprocal tariff' announcement on 3 April 2025 and is preparing for compromises, his Chinese counterpart, President Xi Jinping, has remained defiant.

Xi has taken a leaf out of Trump's playbook, applying a 'maximum pressure' approach to the current trade negotiations with the aim of forcing the other side to yield first. His defiance has so far paid off in terms of gaining strong domestic support and strengthening his power and authority within the Communist Party of China.

Yet despite the tough words from Beijing, the strategy being followed – that is, 'fighting but not breaking off' – was formulated after Trump's first trade war against China in 2018. *[1]* That five-word strategy means that while China and the US compete intensively over geopolitical and technological issues, Beijing probably still wants to work with Washington on matters involving fentanyl, terrorism and military communication.

Within China, the prevailing – and bleak – assessment is that the country faces a protracted competition with the US. *[2]* Beijing sees clear evidence of a containment strategy in Washington's intensifying efforts to maintain its own technological supremacy, curb China's access to global markets and build a coalition of allies to tackle the 'China challenge'. Some of China's current responses to Trump date from his first term in office and have continued ever since.

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China's responses to the Trump administration so far consist of two long-term strategies and one set of short-term negotiation tactics. One long-term strategy, which is economic restructuring, is already under way: China is pivoting the domestic economy, driven by domestic innovation, and is expanding its capabilities in strengthening critical mineral supply chains in high-tech sectors. The second long-term strategy is to reduce its reliance on exporting to the US market and to offset this by diversifying trade with non-Western countries. Beijing has devised further resources to engage with the non-Western world to seek out new markets and strengthen diplomatic ties.

Its short-term trade negotiation tactics with Washington aim to find a level of 'cold peace' while biding its time to focus on economic rebalancing and breaking technological chokepoints. Chinese officials believe that Beijing is in a stronger position than Washington to withstand short-term pain. [3] That is largely due to China's political system, in that its leaders can marshal resources to mitigate tariff impacts without worrying about a public backlash, unlike President Trump. But Beijing also needs a plan to offset the current economic disruption.

This policy brief will analyse China's responses to the US tariff war in the short term. It also identifies and examines the key personnel in China who have shaped negotiations so far. Finally, it offers initial assessments on the global implications of the current China–US standoff, drawing on a combination of public statements and recent private conversations with Chinese and Western policy practitioners.

Diversifying trade with Global South

The tariff stand-off between China and the US has pushed their economic de-coupling to new heights. Their tit-for-tat exchanges should not be seen as economic irrationality but a reflection of the already extremely difficult bilateral ties between Beijing and Washington. China's increasing commercial competitiveness is now a significant source of tension. Any previous benefits of the US–China relationship, such as on trade and investment, have rapidly diminished.

Trade figures reveal that the two countries simply do not need each other to the same degree as they once did. Exports to the US from China by 2024 made up only 13 per cent of Beijing's total export value in contrast to 20 per cent back in 2018. [4]

Beijing experienced a harsh version of Trump's 'art of the deal' during his first term in office. Having strongly expected Trump, as a former businessman, to craft a more China-friendly policy, Chinese policymakers and the strategic community were shocked by his trade war against them from March 2018 onwards. Trump's first term began the pursuit of a China containment strategy which then accelerated under the administration of Joe Biden with bipartisan support in the US Congress.

Learning the lessons of 2018, China has since sought diversify its imports from the US and to reduce its economic ties, including trade and investments to the US. Most notably, Beijing has drastically begun to shift its imports away from the US. China's agricultural imports from the US mostly include soybeans, sorghum and meat products, which were steadily declining during Trump's first term. [5]

At the same time, Beijing has expanded its agricultural imports from Brazil, Argentina and Russia. [6] Brazil, for example, has now become the largest source of agricultural imports for China. Such diversification is partly in response to Xi's drive to improve the country's food security. China may also use the prospect of buying more US agricultural products as leverage in talks with the US, given that a large proportion of Trump supporters are in the agricultural export sector.

Pivoting to self-reliance in tech and rare earth export control

Underlying US–China rivalry is a race for global technological supremacy, with each country looking to target the other's supply-chain vulnerabilities.

President Xi has shifted China's top priorities from nominal economic growth to technological breakthroughs, food security and building an economy largely driven by domestic demand and supply. Exports remain crucial to fuel the economy, but the export revenue contributed to China's economic growth has declined steadily in recent years. The types of exports have changed significantly too.

Two successive US administrations – Trump 1.0 and that of Joe Biden – have waged a tech war against Beijing, in pursuit of securing a US technology monopoly over China, despite the cultural and political differences between the two countries. Chinese leaders are frustrated that the highest-value elements of the country's tech sector continue to come from overseas suppliers and are therefore exposed to geopolitical tensions. [7] As such, innovation and technological prowess are of critical importance to Xi's response to the US containment.

China's flagship industrial initiative 'Made in China 2025' also concludes this year. Since 2015, the initiative has sought to achieve a mass-scale upgrade of China's manufacturing capabilities over 10 years. [8] The policy focuses on increasing the export of high-end tech components and reducing the production of consumer basics. The aim has been to ensure China's self-reliance and positioning as a global leader in 10 core strategic innovation sectors.

The initiative is one of the several crucial steps taken by the Chinese government in recent years to strengthen the country's scientific innovation capacity. It has also shifted manufacturing exports into higher-value sectors such as electric vehicles and drones. Hence, this manufacturing shift has become a source of tension in both advanced economies and several large Global South countries which are also seeking to boost their own industrial capacities.

Beyond the pursuit of technological self-reliance, China has also expanded the scope and the duration of export controls over critical minerals. Beijing began tightening its control over rare earths during the Biden administration, in response to the US 'small yard, high fence' controls of high-tech sector exports to China. Between 2023 and 2025, China gradually imposed more restrictions on exports, ranging from gallium to graphite, to the US and other countries. [9] It considers rare earth export control as one of most effective ways to signal to Washington how much damage Beijing can do in disrupting the global supply chain for the high-tech sector.

After Trump's 3 April tariff announcement and the increased tariffs on Chinese products, the Chinese Ministry of Commerce (MOFCOM) imposed export restrictions on seven rare earth elements and magnets used in the defence, energy and automotive sectors. [10] The new restrictions require companies to secure special export licences to export minerals and magnets. These are not blanket bans to prevent Chinese companies from exporting rare earths to foreign entities. Instead, they require companies to apply for a licence to export rare earths.

Judging from details provided by MOFCOM, Beijing considers that this latest export restriction will serve as a trump card in trade negotiations with the US and other countries. China will pause rare earth exports while the new licensing system comes into force which will inadvertently increase the pressure on exporters to apply for the licences. The licensing system also gives Beijing more clarity over which companies have applied for the specific types of licences, enabling it to analyse the exporters and the end-users. This might potentially disrupt the rare earths supply to some US firms, which were prohibited by the Chinese from receiving civil/military dual-use goods from 4 April 2025. [11]

The licensing system may remain dynamic in terms of approval criteria and quantity of exports. This may persuade other countries to collaborate with China on other trade and investment-related issues to prevent rare earth supply disruption in those countries.

Changing the guard and toughening negotiation position

Judging from meetings in Geneva and London, a significant personnel shift has occurred since 2018 at high levels in Beijing regarding who deals with the US on trade-related matters. Sticking points in the recent tariff talks have also prompted China to make changes in their negotiating team. The changes have in turn led to a shift in the balance of institutional power within Chinese government departments. The changes also signal that, unlike in 2018, Beijing is in no hurry to make a quick deal with Trump.

In 2018, Xi appointed the then vice premier Liu He, a senior financial specialist and confidant, to lead the trade negotiations with Robert Lighthizer, the then US trade representative. Wang Shouwen, an economist and chief negotiator from MOFCOM, worked with Liu on the US negotiations. Both officials have strong academic backgrounds in economics with substantive educational exposure to the US. Both were keen to apply their macroeconomic expertise in the trade talks. [12]

Eight years later, Beijing's trade negotiation team has totally changed in terms of professional background and outlook on the US. He Lifeng, the current vice premier and probably one of the closest allies of Xi from his early career, is now representing Beijing to deal with the White House on economic and trade issues. [13] Despite being a lesser-known figure in the Western media and strategic community compared to Liu, He Lifeng's influence on Xi should not be underestimated.

Like Liu, He Lifeng earned a PhD in economics at Xiamen University. But unlike Liu, He Lifeng has extensive experience in governing several coastal provinces and municipalities in China. [14] Many of the regions he governed rely most on manufacturing exports to generat local GDP, so He Lifeng is well-versed on the critical importance of exports and manufacturers to the overall Chinese economy. Liu He was a scholar, financial specialist and central government administrator with no governing experience in the country. He was more likely to view trade disputes through the lens of deficit and surplus in nominal terms. But He Lifeng, with permission from Xi, will unwaveringly argue to preserve China's well-established export sector.

The 'right-hand men' of both lead negotiators also deserve a closer look to understand China's shift in priorities between 2018 and now. Wang Shouwen was the chief trade negotiator working alongside Liu He in 2018 and was vice minister at MOFCOM for nearly a decade. As noted in press coverage, Wang was expert in macroeconomics and numbers but less so regarding legal documents and treaties. [15]

In March 2025, Wang was removed from his post and replaced with Dr Li Chenggang, Beijing's ambassador to the World Trade Organization and another veteran trade negotiator with a PhD in law. [16] Beijing has never given a clear explanation for Wang's sudden removal.

Li's appointment makes up for the previous team's lack of legal expertise among the senior negotiators. For the US, Lighthizer and his successor Jamieson Greer are both practising lawyers. Some extended back-and-forth on the choice of vocabulary in each round of negotiation now looks likely.

With a different lead in place on the Chinese team, the weight of institutions which deal with US–China trade has also shifted. Liu He's previous stint at the Ministry of Finance (MOF) gave it a strong mandate to set the actual percentage of tariff during the 2018 negotiation. MOF acted as the front-running ministry in parallel with MOFCOM. Liao Min, vice finance minister and someone favourable to Western investors, played a significant role in adjusting tariff levels at the 2018 negotiations.

Various public sources on the current talks suggest that MOF is a less important player under He Lifeng's negotiation team. Liao Min, the vice finance minister has had almost no media exposure since the negotiation started. Instead, MOFCOM and its chief trade negotiator Li

Chenggang now lead the actual negotiation and handle press interviews. MOFCOM also retains almost all power in deciding the rare earth licensing approvals for foreign companies and other punitive trade measures.

Such an institutional power shift largely reflects the ways in which the 2025 trade negotiations between the two countries have changed focus. China's trade surplus with the US is a thorny issue for the Trump administration, yet China's near-monopoly of rare earth supplies and its mechanism to further tighten control over these has alarmed Washington. In addition to the pursuit of tech self-reliance, Beijing's targeted export controls over critical minerals have bolstered its defiant negotiating position. Instead of seeking to purchase more US exports, China is now asking the US to remove semiconductor export controls – the table has turned.

Global implications

This policy brief has given much attention to China's position, personnel and responses to the US during current trade tensions. China's aims and responses will have long-lasting impacts on the rest of the world, both for traditional allies of the US and for most of the Global South where Beijing is keen to strengthen its ties.

Regardless of the final agreement over trade, difficult and competitive bilateral ties are here to stay for China and the US. Trade disputes seem to be the least difficult elements to manage in their relations. For Chinese leaders, Trump's unpredictability on trade could have negative spillover effects in other areas of tension, such as Taiwan, the South China Sea and nuclear arms control. Beijing also fears that any final trade agreement with Washington could be too fragile for both sides to uphold.

So far, the Trump administration is still unclear about its Asia policy in this second term. A purge within the National Security Council has removed a cohort of policy professionals with Asia expertise. It would not be surprising if Trump decided to combine security-related issues with grievances over the trade surplus to drive a grand bargain with Beijing over a final trade agreement, if needed.

For China, other negative spillover effects might arise as the Trump administration exerts strong pressure on its allies – many of which are also major trading partners with China – to build a united front against Beijing in trade and security. Another key reason for China to remain defiant over tariffs is to send a strong signal to its major trading partners that Beijing can afford to say no. As the first and only country to stand up to Trump's tariff coercion, China ranks as an undisputed equal to the US in the great power game.

When communicating with its major trading partners, China has adopted a 'carrot and stick' approach. Which of the two Beijing chooses to offer depends largely on how close each country is in terms of security and political ties with the US. The closer a country is to the US over economic and hard security, the more likely China will send warnings and sound tough. ‘Carrots’ are likely to be sent to those partners largely in the Global South.

Beijing is paying close attention to ongoing trade negotiations by the US with Australia, the EU, Japan and South Korea; all have had critical trade ties to China but are also close long-term US allies. Beijing will watch keenly to see if any final trade agreements reached include a ‘China clause’ which would potentially harm China’s economic interests.

For example, Beijing has already criticized the UK government after it concluded a trade deal with the US which agreed to rule out Chinese exports in any supply chain of their critical national infrastructure. *[17]* For the UK, it is easier to agree such terms as its physical trade and economic connectivity with China are much smaller than those of other US allies. Given Beijing’s reaction to that deal, it remains to be seen what types of deal the EU and other advanced economies will reach over tariffs with the Trump administration.

Conclusion and policy recommendations

The rest of the world is pondering how long the two largest economies will take to reach a trade deal. So far, Beijing looks set to continue its stalling approach when it comes to the negotiations and communication tactics. Neither side is willing to compromise on chips and rare earth export controls. Both sides are unlikely to craft a final trade deal that would make their overall bilateral relations take a positive turn.

The EU’s intentions regarding Trump remain unclear, either on trade or transatlantic ties. The EU has its own trade disputes with China. Both have become high-end major manufacturing powers that are vying for competition in European and global markets. The EU’s trade irritants with China will outlast this US administration. It would be worthwhile for the EU to formulate a trade policy on China on its own terms, not just according to what Trump demands from China.

Beijing’s current trade negotiation tactics with the US might well be applied to the EU as well as to other close US allies. While Washington deals with Beijing on individual terms, the EU could work together with China’s other major trading partners in the West to come up with a joint negotiation position over subsidies, market entry and export control.

Brussels also needs a laser-focused approach on the sectors where it wishes to reduce its China exposure and, on the areas, where work with Beijing can continue. De-risking is a recent phenomenon but is much easier said than done.

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