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Trump's Tariff War: Is China Holding the Winning Hand?

China has significantly strengthened its economic and strategic arsenal to counter a renewed trade war under Donald Trump.

Here is an analysis on how prepared China is for Trump's trade war, its available tools, and how the legal, economic and geopolitical tools, beside the role of time, will make China a winner in this trade conflict.

China Was Prepared for the Sanctions

In an editorial published by People's Daily (CCP official newspaper), China laid out its playbook clearly:

Given China's arms and tools to fight Trump's tariff war, the Empire of the Middle is holding a winning hand

– The tariffs were expected and planned for , with contingency responses already built into China's economic strategy.

– The impact will be manageable — China's export dependence on the U.S. has fallen sharply (from 19.2% in 2018 to 14.7% in 2024), while domestic sales now make up 75% of revenue for most exporters, and China is the number one trade partner with more than 120 nations.

– The tariffs are seen as a strategic opportunity to boost self-reliance in tech, accelerate domestic consumption, and reinforce China's image as a stable force in an increasingly erratic global economy.

The editorial ends with a quote from Xi Jinping: "The Chinese economy is a vast sea, not a small pond."

What Arms Does China Possess in This Trade War?

1. **Tariffs – But Smarter and Selective**

China has increased tariffs on all U.S. imports to 125% in retaliation. However, rather than a blunt tit-for-tat approach, China targets sectors and firms with leverage or that are politically symbolic (e.g., agriculture, defence-related firms).

2. **Export Controls on Critical Materials**

These hit the U.S. tech and defence sectors hard, especially areas like semiconductors and advanced manufacturing, where U.S. firms rely on Chinese supply chains.

These are asymmetric tools, as the U.S. doesn't have immediate substitutes for certain rare earths and specialised materials.

3. **Blacklists & the 'Unreliable Entity List'**

China now has a growing list of U.S. firms barred from operating or trading in China. Initially symbolic, now increasingly strategic.

From defence giants (Lockheed, Raytheon) to consumer brands (PVH, Illumina), the blacklist has teeth and is no longer just a political gesture. China blacklisted Lockheed Martin and Raytheon Missiles & Defense in 2023 for their involvement in arms sales to Taiwan.

4. **Regulatory Warfare: Antitrust Investigations & Delays**

One tool Beijing has increasingly used to advance its geopolitical goals is its antimonopoly rules. Regulatory probes into firms like DuPont, and the deliberate stalling of merger deals (like Intel's failed acquisition of Tower Semiconductor), show how China is using antitrust rules as a weapon, as it is used in the U.S. too.

Further, China's antitrust regulator is reviewing a deal that would shift control of two ports in Panama from CK Hutchison, controlled by the family of Hong Kong billionaire Li Ka-shing, to an investor group led by American BlackRock.

China introduced the blacklist in 2019 in response to the U.S. blacklisting of telecoms giant Huawei Technologies. Firms deemed “unreliable entities” by Beijing are barred from doing business with Chinese companies or making investments in the country. They may also face restrictions such as entry bans for senior personnel.

5. **Market Access as Leverage**

China still offers the largest consumer market in the world. Many U.S. multinationals—from carmakers to biotech firms—remain deeply embedded there. The domestic market consumes 75% of China’s total production.

Recognising the need to mitigate reliance on exports, China is intensifying efforts to boost domestic consumption. The government has expanded fiscal stimulus measures, including a 300 billion yuan trade-in program aimed at encouraging the purchase of consumer goods such as electric vehicles and home appliances. This initiative not only stimulates economic activity but also aligns with China’s strategic shift towards a consumption-driven economy, reducing vulnerability to external trade fluctuations.

6. **Financial Maneuvers and Yuan Stability**

Unlike previous crises, China is avoiding self-harming measures like a major yuan devaluation or dumping U.S. Treasurys.

China’s substantial holdings of U.S. Treasury securities have been a focal point in the financial dimensions of the trade war. As of December 2024, China’s holdings declined to $759 billion, reflecting a strategic diversification of foreign exchange reserves. While concerns exist about large-scale sell-offs impacting U.S. financial stability, such actions could also affect China’s economic interests, indicating a cautious approach.

China’s holdings have been on a gradual decline from their peak of over $1.3 trillion in 2013. Analysts suggest that some of China’s U.S. debt holdings may be held through custodial accounts in countries like Belgium and Luxembourg, potentially underrepresenting the actual total.

7. **Strengthening of Regional Alliance**

Beijing has been proactively seeking to strengthen ties with other nations affected by U.S. trade policies. Notably, on March 30, 2025, trade ministers from China, South Korea, and Japan convened to discuss a trilateral free trade agreement and enhanced supply-chain cooperation, signaling China’s resilience to American tariffs and sanctions through regional collaboration commitment.

China has also been building trade bridges across Southeast Asia, promoting “de-dollarisation” in regional trade, and strengthening long-term economic autonomy. This is particularly evident among ASEAN members, with recent efforts focused on Vietnam, Laos, and Cambodia, where China is advancing translocal industrialisation and conducting trade in yuan.

Is China Ready to Play Big With Trump?

The answer is a big Yes, and with increasing confidence. Under Xi Jinping, China has learned from the 2018–2020 trade war and has hardened its institutions to absorb shocks without panicking. China has built out legal, economic and geopolitical tools to inflict pain without triggering instability at home.

1. **Legal Tools**

These are regulatory and legislative instruments aimed at constraining or punishing foreign firms operating in or with China, such as:

Antitrust investigations and the Unreliable Entity List. China has ramped up antitrust probes into U.S. firms such as DuPont, often without transparent legal justification — a tactic to signal political displeasure.

Unreliable Entity List, which restricts or bans companies from investing, trading, or even sending staff to China. Targets have included Lockheed Martin, Raytheon, PVH (Calvin Klein), and Illumina — linking legal levers to broader strategic disputes.

2. **Economic Tools**

These hit directly at trade, supply chains, and market access, aimed at causing financial or operational pain.

Export controls on critical materials: China has restricted exports of materials essential to **semiconductors**, such as **gallium** and **germanium**, which are vital for U.S. high-tech industries and defence applications.

Tariff retaliation: In response to U.S. tariffs (which have risen to 125% under Trump), China has imposed tariffs on a wide array of U.S. goods, now affecting 84% of imports.

Market access threats: U.S. firms like **Intel** and **Tesla** face growing uncertainty over whether they'll be allowed to expand or even operate in the country in future.

3. **Geopolitical Tools**

These are manoeuvres in diplomacy and international partnerships designed to reduce U.S. leverage and broaden China's economic alliances.

Diversification of Trade Partnerships: China is strengthening economic ties with other nations, particularly in Southeast Asia, Latin America and Europe, to mitigate the impact of reduced trade with the U.S. In Southeast Asia (e.g. Cambodia, Thailand, Laos), China is offering them easier market access and yuan-based trade deals — part of a "de-dollarisation" strategy. ASEAN has China as its number one trade partner.

Blocking global deals: China has used regulatory stalling to obstruct U.S.-linked international mergers and acquisitions. For example, it blocked Intel's takeover of Tower Semiconductor, not because of local competition issues but as a geopolitical signal.

BRI & alternative trade blocs: China's Belt and Road Initiative and newer moves within RCEP (Regional Comprehensive Economic Partnership) serve to deepen global dependencies that bypass the U.S. RCEP is the world's largest free trade agreement, both by GDP (30%) and population (30%). It's a major Asia-Pacific trade pact that aims to streamline trade rules, reduce tariffs, and deepen economic integration among its members, without the United States. RCEP positions China at the heart of regional trade architecture, strengthens China's economic influence in Asia-Pacific, especially as the U.S. continues a more protectionist course under Trump, and it provides a platform to promote yuan-based trade and de-dollarisation strategies.

In conclusion

Given China's arms and tools to fight Trump's tariff war, the Empire of the Middle is holding a winning hand. Further, China doesn't need to win quickly—it just needs to outlast. The longer the confrontation drags on, the more likely U.S. businesses will get anxious. The bet is that supply chain pain, lost market share, and international fatigue with Trump's tariffs will eventually work in Beijing's favour.

China is also playing the long game on tech. With plans like *Made in China 2025*, it aims to reduce dependence on U.S. technology altogether. That's not a slogan—it's policy, investment, and institutional focus.

Ricardo Martins, April 19, 2025

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