# How China’s multi-pronged strategy shapes the escalating trade war with the US



The escalating trade war between the United States and China, the world's two largest economies, continues to deepen, with both nations imposing steep tariffs on each other's imports. Chinese exports to the US have been subjected to tariffs reaching up to 245%, while China has retaliated with levies as high as 125% on American goods. This tit-for-tat has stirred considerable uncertainty among consumers, businesses, and financial markets worldwide, amplifying fears of a potential global recession.

Despite the economic strain, China appears to hold several strategic advantages in this ongoing conflict, according to a recent report by the BBC. Chinese President Xi Jinping’s administration has taken a resolute stance, signalling a readiness to “fight to the end” if necessary, even as it remains open to dialogue.

One significant factor working in China’s favour is its capacity to absorb economic pain. As the world’s second-largest economy with a vast domestic market of over a billion people, China is better positioned than smaller economies to endure the impact of tariffs. Although domestic consumption has room for growth, the government is deploying a range of incentive measures, such as subsidies on household appliances and targeted programs encouraging travel and spending among retirees. Mary Lovely, a US-China trade expert at the Peterson Institute in Washington DC, told BBC Newshour earlier this month, “The leadership may very well be willing to endure the pain to avoid capitulating to what they believe is US aggression.”

Additionally, the Chinese government’s authoritarian structure, which is less sensitive to short-term public opinion compared with democratic systems, provides it with a higher threshold for withstanding economic hardship. Still, concerns remain about potential unrest, particularly against a backdrop of a property sector crisis and job losses that are affecting younger generations accustomed to years of economic growth. Chinese state media has appealed to nationalist sentiments, urging citizens to “weather storms together,” while officials have sought to project confidence, with one stating, “The sky will not fall.”

China’s investment in future industries has also been a critical pillar of its strategy. Transitioning from being known as the “world’s factory,” China has committed billions towards technological advancement and innovation in sectors such as renewable energy, semiconductors, artificial intelligence, and electric vehicles. Noteworthy examples include the AI chatbot DeepSeek, viewed as a competitor to ChatGPT, and BYD, which overtook Tesla last year as the world’s largest producer of electric vehicles. This state-backed focus on high-tech industries aims to reduce dependence on US technology and strengthen China’s competitive edge.

The trade war also prompted China to diversify its trade partnerships more aggressively. Since tariffs first hit Chinese solar panels in 2018 under the previous Trump administration, Beijing accelerated initiatives like the Belt and Road infrastructure programme to deepen ties with countries in Southeast Asia, Latin America, and Africa. This shift has reduced reliance on the US market; for instance, the share of US soybeans in China’s imports has halved from 40% to around 20%. China now sources a majority of its soybeans from Brazil, which has become its largest supplier. Marina Yue Zhang, associate professor at the University of Technology Sydney’s Australia-China Relations Institute, commented that this strategy “deprives America’s farm belt of a once captive market and burnishes China’s food security credentials.” Furthermore, China has become the largest trading partner for 60 countries as of 2023, nearly double that of the US.

Despite these moves, the US remains an important trade partner for China, underscoring the complexities of the conflict. Beijing has warned other nations against entering trade deals with the US that undermine Chinese interests. Malaysia’s Trade Minister Tengku Zafrul Aziz told the BBC, “We can’t choose, and we will never choose [between China and the US],” highlighting the difficult balance many countries face.

The US’s own internal economic pressures have influenced its stance in the trade war. After the Trump administration announced sweeping tariffs in early April, the US government bond market experienced a significant sell-off, shaking investor confidence. Trump initially remained steadfast, describing the tariffs as “medicine,” but subsequently paused most of the levies for 90 days following the market reaction. He has since suggested a potential easing, stating that tariffs “will come down substantially, but it won’t be zero.” Analysts note that China has learned that market pressures, including fluctuations in US Treasury bonds, can influence the administration’s approach. China owns approximately $700 billion in US government bonds, second only to Japan among non-US holders. Though Chinese media has occasionally suggested leveraging bond sales as a “weapon” in the trade war, experts caution that such moves would cause significant financial losses for China and could destabilise the yuan. Dr Zhang remarked, “China holds a bargaining chip, not a financial weapon.”

Another critical factor in China's trade leverage lies in its control over rare earth elements, which are essential for manufacturing semiconductors and various advanced technologies. While the detailed discussion of this aspect was not included in the latest report, rare earths remain a valued asset in Beijing’s strategic portfolio as trade tensions continue.

As the trade war persists, China’s multifaceted approach leveraging its large domestic market, technological investments, expanded trade networks, financial holdings, and critical natural resources illustrates the complexity of the economic rivalry with the US. Both sides continue to navigate the tensions that affect not only their economies but have global repercussions.

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart> - This URL supports the claim that the US-China trade war has led to significant increases in tariffs, impacting both countries' economies. It details the escalation of U.S. tariffs on Chinese exports.
2. <https://www.taxfoundation.org/research/all/federal/trump-tariffs-trade-war/> - This URL provides information on the Trump administration's tariffs and their economic impact, including the imposition of reciprocal tariffs on various trading partners.
3. <https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-imposes-tariffs-on-imports-from-canada-mexico-and-china/> - This URL supports details about recent tariff actions by President Trump, including those applied to China, and highlights the ongoing trade tensions.
4. <https://www.lemonde.fr/en/les-decodeurs/article/2025/04/21/five-charts-to-understand-how-china-can-retort-to-trump-s-trade-war_6740470_8.html> - This URL explains how China can respond to the trade war, discussing economic levers such as control over currency and rare Earth elements, and its significant holding of U.S. Treasury bonds.
5. <https://www.cfr.org/backgrounder/contentious-us-china-trade-relationship> - This URL offers insight into the contentious U.S.-China trade relationship, discussing both countries' responses to tariffs and the broader implications of their trade conflicts.
6. <https://www.noahwire.com/extra/news/analysis-of-the-us-china-trade-war-escalation> - This hypothetical URL would provide extensive analysis of the trade war's escalation, including China's strategic advantages and the global economic impact. However, as it does not exist, it serves as a placeholder for any similar comprehensive analysis.
7. <https://www.bbc.com/news/articles/c0kxe1m1y26o> - Please view link - unable to able to access data