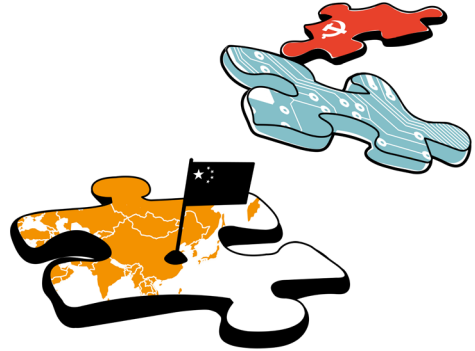


FEBRUARY 13, 2025

# MERICS China Essentials



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## TOP STORY

### China is better positioned now for US trade war despite economic headwinds

The US-China trade war escalated further this week, but China is in a very different position than when it first faced off with President Trump and his tariffs in 2018. China responded selectively to Trump's additional 10% tariff on all imports from China, hitting back with a 15% tariff on American LNG and some coal types as well as 10% on American crude oil, agricultural machinery, and automobiles. These build on existing rates from the first Trump administration (25% on all imports from China) and Biden's (100% on Chinese EVs, 50% on solar panels, and 25% on EV batteries, critical minerals, steel, aluminum, face masks and ship-to-shore cranes), along with China's own tariffs on US goods (25% on all imports from the US, with some exemptions).

China's response highlights how different the trade war is today. Starting in 2018, China went tit-for-tat with the US, matching tariffs proportionally. This time, China upped the ante with 15% against the US' 10% but deescalated by targeting specific products rather than responding across the board. Beijing is also retaliating with the sophisticated toolkit it has developed in recent years, including anti-trust measures on US tech companies (see entry below).

The products Beijing chose also reflect the success of two of President Xi's major policies – Made in China 2025 (MIC2025) and the Belt and Road Initiative (BRI). Among other sectors, MIC2025 poured support into agricultural machinery and EVs. Successful industrial policy in those sectors has cut China's need to import those goods from the US. And the availability of quality China-made alternatives makes higher prices due to the tariffs less likely.

Meanwhile, the tariffs on US LNG, coal, and crude oil are similarly more tolerable due to the BRI. China has drastically diversified its energy sources by building infrastructure and securing contracts with energy providers in Russia, Central Asia, the Middle East, Africa, and Latin America – though its long-term contracts with US energy suppliers may leave some exposure.

“ *Beijing has clearly planned out what Trump's return could mean, and its self-reliance and diversification efforts have made it more resilient to further escalation from Washington. But economic times are tougher now than during the first round of tariffs in 2018, and China's exports are facing new barriers with other trade partners who are worried about importing the distortions of Chinese industrial policy and overcapacity.*

**Jacob Gunter**, Lead Analyst, MERICS

#### Media coverage and sources:

- Ministry of Finance: [Announcement of the State Council Tariff Commission on imposing additional tariffs on some imports from the United States](#)
- The White House: [Fact Sheet: President Donald J. Trump imposes tariffs on imports from Canada, Mexico and China](#)

## METRIX

# 501 million

This was the number of domestic trips people in China took during the 8-day New Year holiday period from January 28. This was around 20% more than in 2019, the last “normal” year before the Covid-19 pandemic. But travelers only spent an average of 168.9 CNY (22.40 EUR) per day, nominally lower than the pre-pandemic level of 176.9 CNY and effectively the same when adjusted for inflation. Chinese households are spending on travel again, but they are spending cautiously. (Source: [CNN](#))

## TOPICS

### **China's tariffs on US energy seek to energize partnerships and resilience building**

Beijing's imposition of a 15 percent tariff on certain types of US coal and liquefied natural gas (LNG), coupled with a 10 percent tariff on crude oil imported from the US, signaled that China is more interested in strengthening its resilience and self-reliance than inflicting maximum pain in the trade war with the US. As China's targeted tariffs on US energy imports came into effect on 10 February, the China Council for the Promotion of International Trade led executives from 32 domestic companies on a four-day exchange with Kazakhstan on opportunities including in the oil and gas and clean energy sectors. On the same day, Russia announced that Xi Jinping would attend Russia's World War II Victory Day celebrations in Moscow on 9 May. This could provide an opportunity for Xi and Russian President Vladimir Putin to further cooperation on oil and gas trade and joint development of nuclear energy capacity.

The US tech war has prompted China to double down on domestic high-tech research and development including in energy-related projects such as nuclear fusion. Similarly, China may now be looking to turn US President Trump's aggressive tariff policy into an opportunity to address its own vulnerabilities.

The US is not one of China's key fossil fuel suppliers, but Beijing knows its weak points as the world's largest energy importer and that Trump may be tempted to exploit them. On 8 February, Washington sanctioned a network of individuals and tankers it said were helping to ship large amounts of Iranian oil to China – a reminder to Iran's biggest customer that this energy source could also become more problematic. Trump had warned China that buying Iranian oil would mean the US is “not going to let you do business in this country” threatening to impose import tariffs “of 100 percent or more”.

“ *China's energy tariffs are strongly aligned with Beijing's ongoing goal of enhancing its own energy security through the development of its own renewables and the nearshoring and friendshoring energy imports. Rather than aiming to inflict major pain on the US, Beijing's tariffs are a political signal to the entire Chinese system that building resilience is a top priority that dictates the goals of China's foreign policy and international outreach. Future responses to more Trump tariffs may similarly signal areas of Beijing's ambition.*

**Grzegorz Stec**, Head of MERICs' Brussels office

#### **Media coverage and sources:**

- SCMP: [China sends trade mission to Central Asia as it braces for US tariff war](#)
- IEA: [China – Energy mix](#)
- CNN: [The US led on nuclear fusion for decades. Now China is in position to win the race](#)
- US Treasury: [Treasury targets oil network generating hundreds of millions of Dollars for Iran's Military](#)
- The Economic Times: [US coal exports to India expected to rise due to China tariffs](#)

#### **China's trade-war response exploits US regulatory weaknesses in tech field**

China is responding to the US trade war not only with defensive measures such as tariffs, but also with antitrust and cybersecurity investigations, sanctions and export controls. The use of antitrust to investigate US companies in China could prove particularly fruitful. The US has not enforced effective antitrust rules against its tech companies since the early 2000s, allowing them to get away with monopolistic behavior such as Microsoft bundling its browser with its operating system. In response to Trump's 10 percent tariff on all goods, China has launched an investigation into Google's practices and is reportedly considering one against Apple. It has also added US apparel company PVH Group and biotech firm Illumina to its list of unreliable entities and imposed new export controls on minerals critical to electronics manufacturing. Previous responses to US export controls included an antitrust investigation into tech giant Nvidia, a cybersecurity investigation into memory-chip maker Micron and export controls.

China's efforts to shore up its antitrust and cybersecurity regulation have created an array of “soft” instruments – rules that can be selectively enforced against specific companies. This is now allowing China to pursue multiple goals at the same time, including geopolitical retaliation, industrial policy and putting pressure on international companies to move R&D to China or lobby their home governments.

“ *China's arsenal to counter US trade actions is now much broader than just traditional tariff policy. In particular, it is using 'soft' tools such as anti-monopoly rules. US tech companies are a good target for antitrust investigations because the*

*US has been lax in enforcing its own rules over the years, allowing its tech giants to get away with monopolistic behavior.*

**Antonia Hmadi**, Senior Analyst at MERICS

#### **Media coverage and sources:**

- CNAS: [How China's antitrust tactics undermine US tech leadership](#)
- Global Times: [China adds two US firms to unreliable entity list to safeguard national security: MOFCOM](#)
- Bloomberg: [China weighs investigating Apple over app store policies, fees including 30% cut](#)
- Financial Times: [China targets Google, Nvidia and Intel as Donald Trump's tariffs bite](#)
- State Administration for Market Regulation: [Google is suspected of violating the anti-monopoly law \(谷歌公司涉嫌违反反垄断法 市场监管总局依法决定立案调查\)](#)

#### **Trump's USAID funding freeze provides new opportunity for China's soft power**

From Nepal to Colombia, China is stepping up its support after the Trump administration froze funding for USAID and some State Department programs last week. China is offering its assistance for some of the humanitarian aid projects abandoned by the US. With a budget of USD 65 billion in 2023, USAID was the largest international donor, providing aid to war-torn Ukraine and other countries affected by conflict or natural disasters. The US has a long history of funding civil society groups working to promote democracy and human rights. Many smaller advocacy organizations that provide crucial information about issues such as censorship, labor and ethnic minority rights in China will also be impacted by Washington's sudden funding freeze.

While Beijing will not want to replace funding for all US initiatives, it could selectively fill gaps in line with its policy objectives. Its offer of unconditional aid and investment could strengthen authoritarian governments that accept it. Support for local civil society groups worldwide is likely to shrink significantly unless the EU and other liberal democracies can mobilize substantial resources. Independent organizations working on democracy and human rights in China face an existential crisis, as other public donors in the US also face funding cuts or reviews. Many organizations are already underfunded, as public and private donors cut back their involvement after the PRC introduced its Foreign NGO Law in 2017.

“*The lack of even a halfway responsible exit plan leaves recipients in high-risk regions and fields of work hanging. Beijing will certainly use the strategic space to position China as the more humane and reliable partner – at least where it suits its interests.*

**Katja Drinhausen**, Head of Program Politics and Society, MERICS

### Media coverage and sources:

- Reuters: [US aid freeze risks handing influence to China in Beijing's backyard](#)
- The Strategist: [With US funding freeze, China nonprofits are facing extinction. They need emergency assistance](#)
- The Wall Street Journal: [How much the US spent on foreign aid—and where it went](#)
- Politico: [As USAID retreats, China pounces](#)

## CALL FOR APPLICATIONS

### MERICS European China Talent Program 2025

The MERICS European China Talent Program (ECTP) will again gather a selected group of approximately 15 European early career scholars and professionals in Berlin to discuss some of the most important developments in China and their implications for Europe. This year's edition will take place from July 1 – 4 in Berlin. Applications are open until March 30. [Learn more.](#)



Call for applications:  
**MERICS European China  
Talent Program 2025**  
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[merics.org/en/about-us/ectp](https://merics.org/en/about-us/ectp)

Apply by  
March 30!

## MERICS CHINA DIGEST

### [China is willing to share achievements in AI, vice premier says at Paris summit \(Reuters\)](#)

Vice Premier Zhang Guoqing represented China at the AI summit in Paris at the beginning of this week where he said that his country was willing to work with partners to safeguard security and share achievements in the field in order to build "a community with a shared future for mankind". (25/02/11)

### [Chinese companies use legal threats to halt foreign research \(The New York Times\)](#)

According to a report by The New York Times, researchers from the US, Europe and Australia have received legal threats by Chinese companies in an attempt to discourage unfavorable research. (25/02/11)

### [Alibaba pairs with Apple to develop AI features for China iPhones: sources \(South China Morning Post\)](#)

China's internet and e-commerce giant Alibaba has entered a collaboration with US consumer electronics firm Apple to develop artificial intelligence features for iPhones in China, the South China Morning Post quotes a source familiar with the matter. (25/02/11)

[Exclusive: China's record mergers in USD 8 trillion small banking sector raise future risks \(Reuters\)](#)

At least 290 small rural banks in China were merged last year, according to a Reuters review of official data. Many of them have been hit hard by China's economic downturn and the crisis in the property sector. Experts warn that Beijing's efforts to tackle risks in the sector could create even more problems. (25/02/12)

[China's new marriages fall to 46-year low \(Caixin Global\)](#)

The number of new marriages in China dropped to the lowest level in 46 last year with just 6.1 million couples tying the knot. The latest slump fuels concerns over the country's looming demographic crisis. (25/02/12)

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