

Macro Note

US: China strikes back as Trump launches first wave of Chinese tariffs

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- US President Trump delayed the imposition of 25% tariffs to Mexico and Canada for the next 30 days in exchange for deals for border security against Fentanyl and illegal immigration. But a blanket 10% additional tariff on imports from China went ahead after 12:01 am (NY time) on Tue (4 Feb), kickstarting Trump trade war 2.0.
- The Chinese government reciprocated immediately with a new set of tariffs on US goods and other measures including levies on US coal and LNG imports as well as on oil and equipment imports. China also slapped export controls on Tungsten-related materials and started an investigation to a US tech giant for alleged anti-trust violations. Judging from the first day response, it looks similar to the 2018 episode, and US could continue to ratchet up the tariffs and China could continue to retaliate with corresponding measures, potentially escalating trade tensions as seen in the earlier trade war (2018).
- **Outlook** - What can we expect from US-China trade relations in 2025? The short answer is likely to be more tariffs and frictions. We maintain our Base Case scenario (at 55% probability) which calls for more measured imposition of tariffs (from the additional 10% tariff, we expect it to rise to 25% on China, instead of the claimed 60% after the conclusion of the investigation by the USTR. We also expect 10% tariffs on economies that recorded increase in trade surplus with US due to trade diversion from China, and no blanket tariff on all US imports). Our estimate of the staggered implementation pace has now been brought forward to 1Q 2025 and we continue to expect it fully completed by 1H 2026.
- The increased uncertainty of Trump's tariff policies to both adversaries and allies alike and implications on US inflation, reinforce the case for the Fed to stay on pause for longer, until the policymakers, like the markets, get a better clarity of the policies of the Trump Administration.

Trump launches 10% tariff on China, while 25% on Mexico and Canada receives 30-day delay as the "sublime" dealmaker takes centerstage

And so, Trump's trade war begins. It seems like Déjà vu all over again after 4 years. After US President Donald Trump made good on his tariff threat following his election victory, things took a not-so-unexpected turn. Trump on Sat (1 Feb) announced a blanket 10% tariff on imports from China, and 25% tariff on imports from Canada and Mexico, to take effect at 12:01 am (NY time) on Tue (4 Feb). While Canada and Mexico received a 30-day delay from the US tariff in exchange for deals on border security against Fentanyl and illegal immigration, the 10% tariff on China took effect as the deadline has now lapsed, thus kickstarting Trump trade war 2.0 (in Trump 2.0).

It was about China. Trump's executive orders against China, Canada and Mexico were aimed at stopping a trade exemption called "de minimis" which allows exporters to ship packages worth less than US\$800 into the US duty-free. Trump also said he would impose a separate 10% tariff on energy imports from Canada (including oil, natural gas and electricity) to be introduced later around 18 Feb. While the month-long reprieve was extended to Mexico and Canada, the 10% tariff was imposed on China without extension.

The Chinese government reciprocated immediately on Tue (4 Feb) with a new set of tariffs on US goods and other measures including:

- 1) 15% levy on coal and LNG
- 2) 10% levy on oil and equipment
- 3) Export control slapped on Tungsten-related materials
- 4) Adding certain companies to an unreliable entity list
- 5) Launching an investigation to a US tech giant for alleged anti-trust violations

We could expect a tit-for-tat response from the US, as Trump in his executive order included retaliation clauses that will increase the tariff if the countries respond in kind. Thus, more is expected from President Trump on Tue, when US markets reopen.

Trump's 1 Feb tariffs are directed as a response to the US fentanyl drug crisis and border security issues (i.e. illegal immigration). But more broadly, Trump has viewed tariffs with economic benefits including reducing US trade deficits with key trading partners, bringing manufacturing activity and jobs back to US, and an additional significant source of revenue for the US government.

In comparison, Mexico got a one-month reprieve from the US 25% tariff after Mexican leader Sheinbaum agreed that Mexico will send 10,000 National Guard officers to the border to help stem the flow of fentanyl and migration into the US. And as part of the deal, US also pledged to prevent high-powered weapons from being trafficked into Mexico. Importantly, the two nations agreed to continue tariff negotiations over the next month, with the US team "headed by Secretary of State Marco Rubio, Secretary of Treasury Scott Bessent, and Secretary of Commerce Howard Lutnick, and high-level Representatives of Mexico" according to President Trump in his social media post.

Subsequently, Canadian PM Trudeau also announced that the new US tariffs would be paused for 30 days after committing to Trump that Canada will take new measures to secure the border with the US on top of measures previously announced, including appointing a Fentanyl Czar, 24-7 eyes on the border, a new intelligence directive on organized crime and fentanyl with \$200 million backing by the Canadian government.

Trump's tariffs, retaliatory tariffs and US inflation

Using the trade data for the first 11 months of 2024, US imported nearly US\$ 3 trillion of goods of which around 42% came from its three biggest trading partners, Mexico (US\$ 467 bn), China (US\$ 401 bn) and Canada (US\$ 377 bn) which includes a nearly 4 million barrels of crude oil per day (and Mexico exports about 500,000 barrels per day to US).

While imports from China is significant, it should be noted that not all of US imports are consumer goods. In fact, based on the trade data (Chart 2), only US\$843 bn or about one quarter of US imports are consumer goods, and the rest are intermediate goods for production/inputs for final products.

On the assumption that the impact of tariffs imposed on consumer goods will likely have the direct impact on the CPI, this implies that the price effect may be less impactful based on the share of the consumer goods to the overall amount of US imports. Assuming 25% to 30% of the imports from China consist of consumer goods, we estimate the impact of these current 10% tariff rate could add 0.1-0.2ppt to overall CPI inflation for 2025. That said, Trump also set his sights on EU which as a bloc is the single largest exporter to the US. If imports from EU are added to the tariff basket, then the impact on US inflation is likely going higher towards 0.3-0.4ppt over the next 12 months. Against the background higher inflation risks, we are only expecting one Fed rate cut in 2025 ([link](#)).

Chart 1: Mexico, China and Canada are the biggest trading partners for the US while EU as a bloc is the largest exporter to US

Source: Macrobond, UOB Global Economics & Markets Research

US Imports by Origin (nsa), 2024 YTD (Jan-Nov)

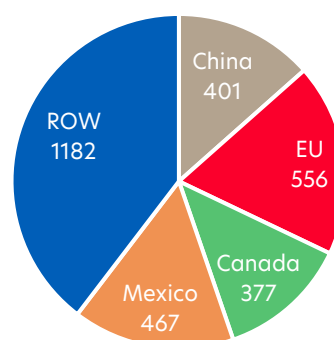
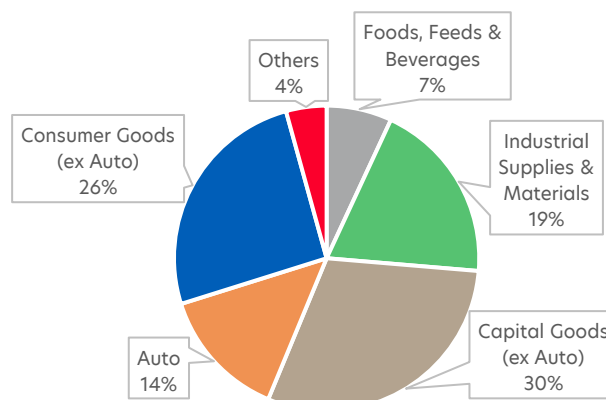


Chart 1: Only a quarter of US imports are consumer goods, which implies a reduced impact of the tariffs on CPI inflation in the near term.

Source: Macrobond, UOB Global Economics & Markets Research

US Imports by Type (sa), 2024



How would this play out? Judging from the first day response, it looks similar to the 2018 episode, and China did not take pre-emptive actions against US before actual tariffs are implemented. At the same time, China could continue to retaliate with corresponding measures, potentially escalating trade tensions as seen in the earlier trade war (2018).

We also note that since the trade war of 2018, US exports to China has risen significantly (23% increase to US\$ 148 bn in 2023 from US\$ 120 bn). This increase in dependence means that more US industries may be vulnerable to Chinese retaliation in the event of a tit-for-tat trade conflict, beyond the measures announced today.

One key difference for China when comparing the 2018 trade war (Trump 1.0) and the newly launched Trump 2.0, was that China was coming into Trump 1.0 from a position of strength. However, China is now facing significant domestic headwinds and weak domestic demand.

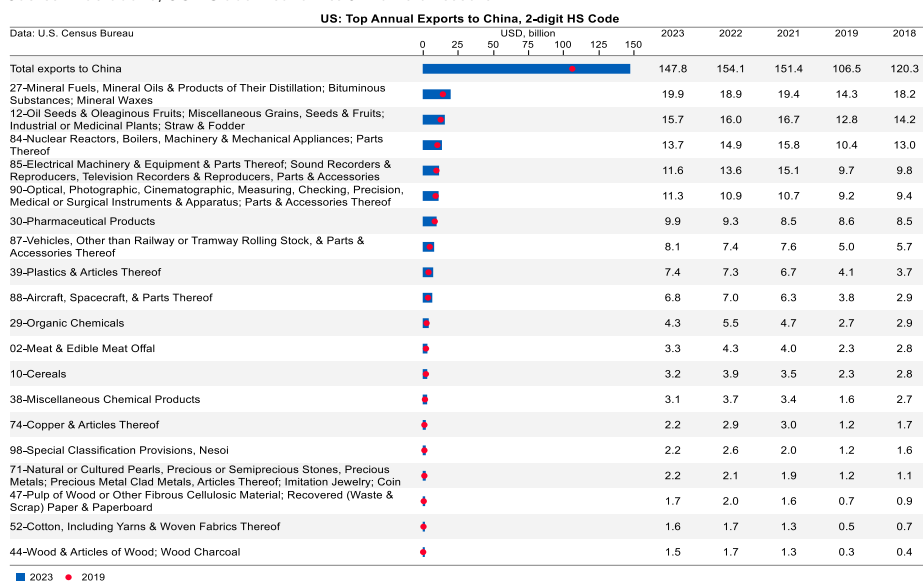
US-China trade war: tariff size and timeline 2018-2020

Source: UOB Global Economics & Markets Research

Effective date	Add'l tariff rate	Amount	Goods involved
Implemented by US			
6-Jul-2018	25%	US\$34 bn	machinery, cars, hard disks and aircraft parts
23-Aug-2018	25%	US\$16 bn	semiconductors, iron and steel products, electrical machinery, railway equipment, instruments and apparatus
24-Sep-2018	10% (raised to 25% from 10 May 2019)	US\$200 bn	electronics parts, electric appliances, network equipment, metals, furniture, plastic goods, textiles and leather goods
1-Sep-2019	15% (cut to 7.5% from 14 Feb 2020)	US\$120 bn	some consumer goods but exclude cellphones, laptops, pharmaceutical & medical goods and critical minerals
Implemented by China			
6-Jul-2018	25%	US\$34 bn (some rolled back in Sep 2019-2020)	545 goods including agricultural products, automobiles and aquatic products
23-Aug-2018	25%	US\$16 bn (some rolled back in Dec 2019-2020)	114 goods including motorcycles, bourbon, orange juice, chemicals, medical equipment and energy products such as coal and crude oil
24-Sep-2018	10% (raised to 10-25% from 1 Jun 2019)	US\$60 bn (some were rolled back in 2020)	5,207 goods including food stuff, industrial minerals and chemicals, textiles and clothing, jewellery, metal products, machinery parts, and a wide range of consumer products
23-Aug-2019	5 -10% (halved from 14 Feb 2020)	US\$75 bn	5,078 goods ranging from agricultural products to crude oil

US exports to China rose by 22.8% between 2018 and 2023

Source: Macrobond, UOB Global Economics & Markets Research



Outlook - Trade policy uncertainty lingers and never underestimate Trump for any quick reversal or escalation. Markets were relieved that Trump delayed imposing any tariff measures on Mexico and Canada for the next 30 days, while China's retaliatory tariffs were viewed largely as symbolic in nature given that the new tariffs affect only US\$14bn worth of American products, which is significantly lower in magnitude compared to Trump's tariffs on Chinese imports, according to Bloomberg's estimates. We also got a clear reminder of Trump 1.0 episode when he weaponized tariffs to secure his agenda (other than trade), in this case dealing with fentanyl and illegal immigration, at the expense of Canada and Mexico. While it remains early days, there is a good chance that Canada and Mexico could escape significant tariffs as long as they accede to Trump's request.

But what can we expect from US-China trade policy in 2025? The short answer is more tariffs and frictions. Based on our earlier work on US tariff scenarios (see 1Q25 Quarterly Global Outlook, [link](#)), we maintain our Base Case scenario (at 55% probability) which calls for measured imposition of tariffs (from the additional 10% tariff, we expect it to rise to 25% on China (instead of the claimed 60% after the conclusion of the trade investigation by the US). We also expect 10% tariffs on economies that recorded increase in trade surplus with US due to trade diversion from China, and no blanket tariff on all US imports).

Our estimate of the staggered implementation pace has now been brought forward slightly earlier to 1Q 2025 and we continue to expect it fully completed by 1H 2026. The rise in tariffs and potentially tougher immigration and border security policies could weigh on US GDP growth which is expected to be lower at 1.8% for 2025 (versus 2.8% for 2024) while tariffs are also likely to push US inflation higher above the Fed's 2% target in 2025 and 2026. With the US' trade actions on China within our expectations, our growth forecast for China is kept at 4.3% for this year.

One point to note is that the increased uncertainty of Trump's tariff policies to both adversaries and allies alike, would reinforce the case for the Fed to stay on pause for longer, until the policymakers, like the markets, get a better clarity of the policies of the Trump Administration.

Tariff Scenarios for Trump 2.0 in 2025

Scenarios	Optimistic	Base case	Pessimistic
Probability	5%	55%	40%
Trump 1.0 trade tariff	Imposed additional tariffs of up to 25% on about US\$370 bn of Chinese imports in 2018-19		
Trump 2.0 proposed tariff policies	- Baseline 10%-20% tariffs on all imports, and as much as 60% on imports from China 25% or even 100% on Mexican-made goods and 200% or 500% on autos imports from Mexico 100% tariffs on countries that want to shift away from using US dollar 25% "anti-drug" tariff on all imports from Mexico & Canada, 10% "anti-drug" tariff (additional) on all imports from China - Trade diversion from China to ASEAN to bypass tariffs could be pursued by Trump, although details are still lacking at this stage		
Tariff measures that may be implemented under different scenarios	Tariffs are not enacted on Mexico or Canada as they accede to Trump's demands on drugs and illegal immigration. Additional tariff on imports from EU and China.. Assume partial/ total rollback of 10%-25% tariff on all imports from China and EU if they commit to significantly increase fixed amount of purchases from the US and to clamp down on drugs and illegal immigration. Prospect of targeted tariff increases on strategic industries in China which affect a smaller amount of US imports.	25% additional tariff on imports from Canada and Mexico and a 10% additional tariff on imports from China. Energy resources from Canada will have a lower 10% tariff. Subsequently, we expect partial or total rollback. There is a high chance that tariffs may not be enacted on Mexico or Canada if they accede to Trump's demands on drugs and illegal immigration. Additional tariff rate on China is likely to be raised following US' trade investigation, which we assumed at 25% (instead of 60%) and 10% tariff on economies that increased trade surplus with US due to trade diversion from China. Prospect of higher tariffs and tightened measures on strategic industries in China. No blanket tariff (of 10%) imposed on all imports. EU is also expected to be hit with tariffs soon. Assume China retaliates by imposing similar tariffs on US goods but limited retaliatory response from other economies.	25% additional tariff on imports from Canada and Mexico and a 10% additional tariff on imports from China. Energy resources from Canada will have a lower 10% tariff. Post-retaliatory response, US may increase tariffs against Mexico and Canada on top of 200% tariff on auto imports from Mexico. Subsequently, 10-20% tariffs on all imports, and 60% on China imports. Higher tariffs (20%) on imports from economies (including ASEAN) deemed to have benefitted via trade diversion from China. Tightened measures related to technology transfer & on high tech industries to China. Assumes tit-for-tat (retaliatory) responses from China and other affected economies.
Tariff implementation timeline	From Feb 2025	China received an early imposition date in 1Q. EU and other economies with significant trade surpluses likely next in line. Investigations could take 6 months to 1 year. Full implementation by 1H26.	From Feb 2025. Full implementation on Chinese goods by 1H26.

Global Economy Outlook	Reduce trade tensions as US reviews progress of its new trade deals. Growth is more positive than previous projection, with trade seeing a robust rebound.	Growth still positive but moderates slightly on the measures imposed. Uneven recovery, differences in sectoral outcomes caused by different tariff changes and differentiated between economies. Moderate rise in US CPI inflation (2025: +0.4ppt to 2.5%).	Sub-par global growth for full year, re-emergence of some supply chain disruption and demand destruction. One-time US inflation spike in 2H25 – 1H26 (2025: +1.0ppt to 3.1%).
2025 Growth			
• Global economy	3.5%	3.1%	2.4%
• US	2.2%	1.8%	1.1%
• China	4.6%	4.3%	3.5%
Changes in Fed funds rate	2025 -50bps 1Q26 -75bps (terminal rate of 3.25%)	2025 - 25bps 2026 - 50bps (terminal rate of 3.75% by 4Q26)	- No cuts in 2025 - Rate cuts to resume in 2026 on growth concerns but limited to just two 25bps cuts due to one-time inflation spike & higher inflation expectations (terminal rate of 4% by 2Q26)
Rates view	Monetary policy easing exerts a stronger pull on 10Y UST yield. Term premium remains on the higher end of recent past but will not push into extremes. End 2025 10Y UST yield range 4.00% to 4.50%.	Monetary policy response largely in “wait and see” mode. Policy path uncertainty to keep term premium elevated with chance of overshoot. End 2025 10Y UST yield range 4.30% to 4.80%.	Stagflation scenario to drive yield curve flattening led by front end repricing for Fed rate hikes while the back end of the curve contends with likelihood of slower economic growth. End 2025 10Y UST yield range 4.70% to 5.20%.
Currencies view	USD weakens anew as markets unwind tariff-related premium and refocus back to Fed's rate-cut plan.	USD to strengthen against most G-10 peers in 1H25 before moderating in 2H25. Asia FX to weaken for the first three quarters of 2025 before rebounding in 4Q25. USD/CNY to test above key 7.35 level in 1Q25 and trade to as high as 7.65 in 3Q25. USD/SGD to rise to 1.40 in 3Q25 before pulling back to 1.38 in 4Q25.	USD to appreciate sharply against most G-10 peers. DXY to potentially test 2022's high near 115. Asia FX to depreciate sharply against the USD due to potential portfolio outflows. USD/CNY to potentially test the psychological 8.00 level though countercyclical policies to prevent one-sided speculative moves can be expected. USD/SGD to trade above 1.40.

Source: UOB Global Economics & Markets Research

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