

US-China trade truce extension averts costly re-escalation for now

As expected, the US and China confirmed a 90-day extension of their trade truce, after several rounds of “productive” negotiations. This keeps tariffs steady until November. Yet after the wave of August tariff hikes, the relative handicap for Chinese exporters has narrowed somewhat



Extension of the trade truce removes a source of uncertainty

Developments in US-China trade negotiations have generally trended in a positive direction in recent weeks. But recent history proves trade developments can turn on a dime. As such, the formalisation of another 90-day extension to the US-China trade truce represents an expected, but nonetheless welcome development.

Apparent progress has been made on various fronts in negotiations, with several key issues gaining prominence during the first trade truce:

- Rare earths - one of the first areas to be targeted, China's rare earth exports rebounded to \$197.8mn in June, up from \$92.8mn in May during the tighter export controls. Rare earths have proven to be a key bargaining chip for China in trade talks, given China's large share of

the global market.

- Chip controls - from the US side, chip controls in the past few years have been at the centre of a push for technological self-sufficiency in China. While this remains an objective, looser controls would still be welcome news in the short-term amid strong demand amid the AI boom. This week's announcements of a potential arrangement to allow for sales of chips to China in exchange for a share of revenue from sales marked a notable shift on this front.
- Agricultural purchases - much like the first trade war in 2018-2019, agricultural purchases are on the radar as an area where the US seeks to sell more into China. The targets have tended to be on the aggressive side, and this looks to still be the case, with Trump calling for China to quadruple its soybean purchases.

Meanwhile, progress on the fentanyl issue, the original justification for this year's early tariff hikes, has been quite limited.

Zooming out, the US Commerce Secretary Howard Lutnick said in July that a so-called "line" would be drawn for US-China ties, creating a divide between economic interests and strategic competition. The US has signalled that while "above this line" the parties would not be selling each other the most advanced products and tech, it wants to ramp up business below the line. This stance is more pragmatic and gives hope that the US and China can at least find some common ground rather than accelerating the decoupling trend of recent years.

The experience in April and May showed that exorbitantly high tariffs damage both economies. As such, it's not a surprise that the truce was extended. Given the difficulties of coming to a so-called "grand bargain," and the effectiveness of utilising tariffs as a tool to get countries to come to the negotiation table, we think it would be difficult to truly put tariffs in the rear-view mirror. As such, a rolling extension to keep dialogue open and avoid re-escalation seems one of the better-case scenarios.

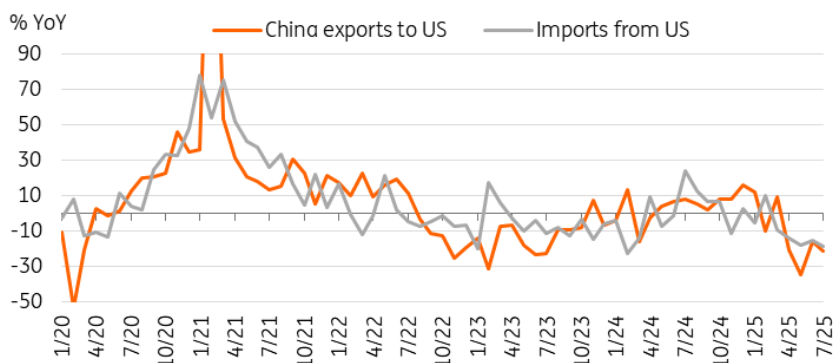
The handicap on Chinese exporters has narrowed after reciprocal tariffs

While China continues to face some of the highest tariff rates, the relative disadvantage compared to many other economies has narrowed after reciprocal tariffs were imposed in August -- with tariffs rising from the 10% benchmark to 15-40% for many economies. This is a particularly important angle, as one of the main avenues for tariff impacts is through the substitution effect. While it has been proven that various Chinese exports have limited substitutability, a narrowed tariff differential could improve the competitiveness of Chinese exports lacking substitutes moving forward.

[China's exports have remained resilient so far in 2025](#) as external demand from non-US economies increased. Its fastest-growing export categories don't rely heavily on the US market, mitigating the impact of tariffs so far. This isn't to say that the tariffs haven't had an impact. China's exports to the US fell -12.5% year-on-year in the first seven months of the year, with a steeper -23.3% YoY drop between April-July. Categories such as footwear, furniture, and toys, where the US represents over 15% of total exports, have fallen into negative export growth this year.

Overall, the drag has been significant but less than many market participants had feared year-to-date. It looks like exports remain on track to contribute solidly to growth this year.

US and China trade has slowed amid tariff hikes but remains significant



Sources: CEIC, ING

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