

China's Trade relations need reform

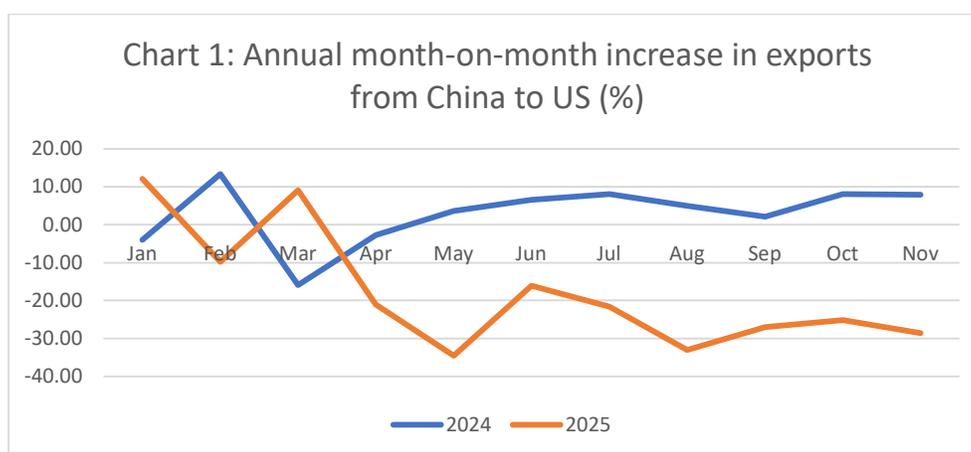
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Early in January, preliminary estimates of China's trade surplus (from the General Administration of Customs of China) placed it at \$1.7 trillion in 2025, as compared with \$993 million in 2024. The sharp 20 per cent rise in the trade surplus occurred because, while China's aggregate exports rose by 5.2 per cent in dollar value, imports rose at a much slower rate of 2.5 per cent.

These trends are surprising as they occurred in a year when, starting April, China has been the special target of US President Trump's effort to weaponize tariffs to achieve multiple goals. Around 15 per cent of China's exports were directed to the US in 2024. Trump did have to walk back on many of the high tariffs he imposed on imports from China, in the wake of China's aggressive response, including a threat of banning exports of rare earths over which it has a near-monopoly in global supply. Even so, the Penn-Wharton budget model from the University of Pennsylvania estimated the effective tariff on Chinese imports into the US to be 37.4 per cent in October, much higher than that on most other trading partners.

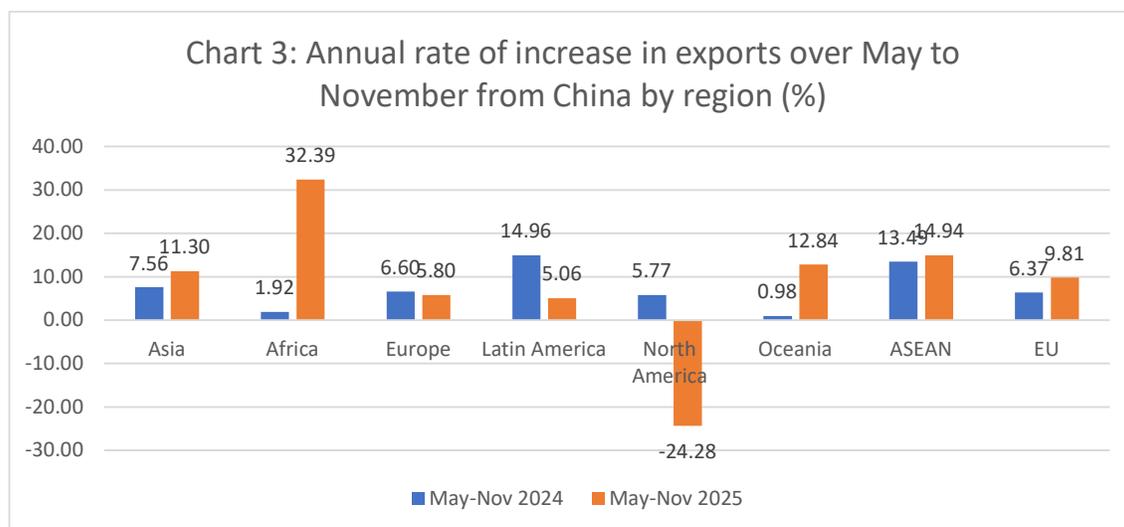
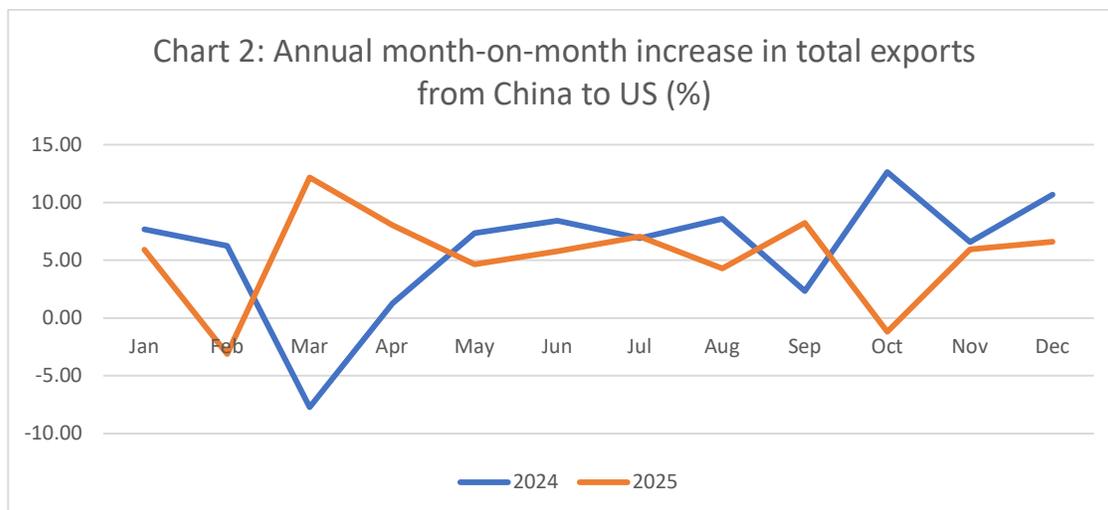
One explanation advanced for the counterintuitive rise in Chinese exports to the US is that Trump's trade war began with his so-called 'Liberation Day' of April which was followed by a brief period of respite for negotiations. Anticipating that they would be the target of high tariffs, Chinese suppliers did frontload exports to the US, leading to a spike around April, which is seen as accounting for the increase over 2025 as a whole. However, that is not a correct explanation, since China's exports to the US over the first 11 months of 2025 fell by 18.8 per cent relative to exports during the corresponding months of 2024. As Chart 1 shows, though there was a spike in the month-on-month increase in China's exports to the US in March 2025, those rates for all subsequent months in 2025 were far below the corresponding rates in 2024.

The adverse impact of the increased tariffs on China's exports to the US over May to November 2025 (relative to the corresponding months of 2024) were visible in all HS1 product categories, with the decline in exports to the US between the two periods being more than 20 per cent in 12 of 22 HS1 product categories (table 1). Exports to the US in each of three categories (Machinery, appliances and equipment, Textiles and Plastics and rubber), which together accounted for 60 per cent of China's exports to the US, fell by more than 20 per cent over May-November 2025.



| Table 1: Composition and May-November 2025 increase in Chinese exports to the US by HS1 categories (%) | | |
|---|------------------------|-----------------|
| | Share in exports to US | Export increase |
| Machinery, Appliances and Electrical Equipment | 41.69 | -28.7 |
| Miscellaneous Manufactured Articles | 10.57 | -28.2 |
| Textiles and Textile Articles | 9.52 | -8.2 |
| Base Metals and Articles | 7.76 | -5.8 |
| Plastics, Rubber and Articles Thereof | 5.09 | -20.4 |
| Transport Equipment | 4.84 | -9.8 |
| Chemicals and Allied | 3.69 | -6.6 |
| Optical, Photographic, Measuring, Medical, Musical Instruments | 3.00 | -6.7 |
| Commodities Not Classified | 2.89 | -27.6 |
| Footwear, Headgear, Umbrellas, etc | 2.68 | -26.1 |
| Prepared Foodstuffs, Beverages, and Tobacco | 2.21 | 13.6 |
| Stone, Cement, Asbestos, Ceramic and Glass Products | 1.48 | -26.7 |
| Leather, Fur and Articles Thereof | 1.06 | -30.4 |
| Wood Pulp, Cellulose, Paper and Articles Thereof | 1.00 | -22.8 |
| Mineral Products | 0.81 | 10.2 |
| Wood, Cork and Articles | 0.58 | -24.3 |
| Vegetable Products | 0.39 | 0.0 |
| Live Animals and Products | 0.33 | -6.2 |
| Precious Stones and Metals | 0.25 | -67.6 |
| Animal or Vegetable Fats and Oils | 0.15 | -44.5 |
| Arms and Ammunition | 0.03 | -3.6 |
| Works of Art | 0.01 | -50.4 |
| Source: General Administration of Customs of China. | | |

Despite this adverse impact, China's aggregate export performance has held up, rising by 5.2 in 2025. In fact, as Chart 2 illustrates, the month-on-month increase in China's aggregate exports has been close to or equal to the increase in 2024 in all months after April 2025, excepting for October 2025. This obviously implies that China has been able to find new markets for its goods, to compensate for loss of exports to the US. As reflected in Chart 3, China's exports from May to November 2025 to Asia, Africa Oceania and the EU grew (relative the same period of the previous year) at a pace significantly or dramatically higher than it did in the corresponding months of 2024.



This diversification would have been good news for the rest of the world (outside of the US), if it reflected enhanced two-way trade between China and different regions of the world. But as mentioned, sluggish demand in China and, possibly, the absence of conscious effort to enhanced imports from countries not endowed with foreign exchange surpluses of the kind that China has access to, has resulted in a limited growth of imports into China from the rest of the world. China’s imports, which has stagnated at \$1.7 trillion in 2023 and 2024, rose only marginally to \$1.8 trillion in 2025, or by 2.5 per cent, resulting in the large trade surplus it has notched up.

While this development may be the result of the immediate responses to US tariff aggression, it is clearly in China’s interest to work towards greater balance in its trade relations with the rest of the world. As pressure on all countries to reduce dependence on the US rises, not just because of the weaponization of tariffs, but because of that country’s bizarre threats and actual resort to military aggression against friends and manufactured enemies alike, this is clearly the best strategy for all other trading nations.

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