Mizuho Brief: US-China

Economics & Strategy | Asia ex-Japan

4 Feb, 2025 | Vishnu Varathan | Head Macro Research, Asia ex-Japan

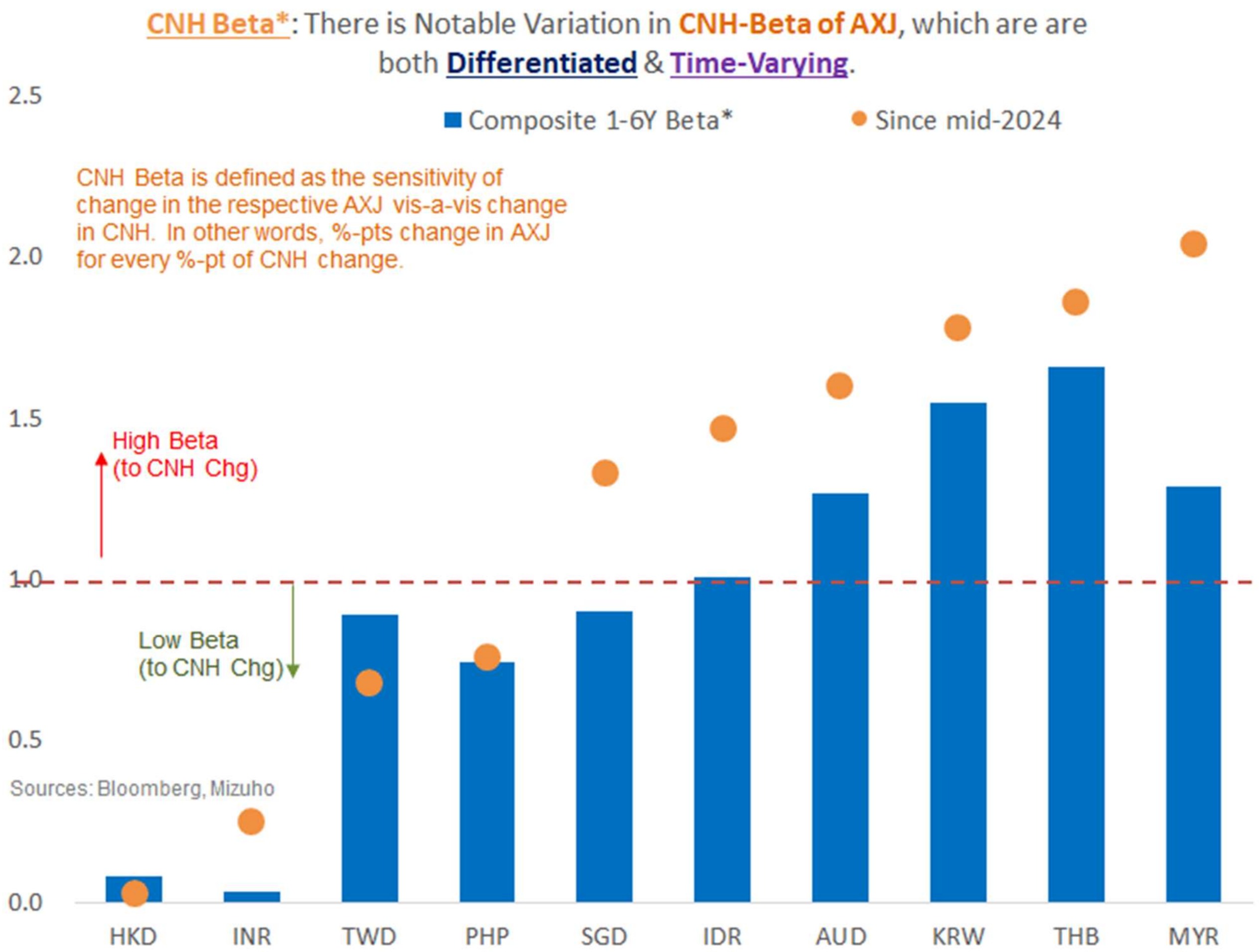
MIZUHO

US-China Trade War: Not All Tariffs are Created Equal

"Move not unless you see an advantage; use not your troops unless there is something to be gained; fight not unless the position is critical." **– Sun Tzu, The Art of War**

- China Tariffs Kick-in Unlike (In Contrast to Mexico-Canada Reprieve): The **10%-pt increase on universal China tariffs has taken effect as Beijing has failed to secure the temporary suspension on tariffs as Mexico and Canada**.
- Different Game & Higher Stakes: This **stark difference in China tariff outcome** (vs. Mexico and Canada) **does not surprise**. As noted in our "Macro Daily" Note* report, "*The tariff tool may be the same. But the game is different, and the stakes higher*".
- Overarching Geo-Economic Factors: Crucially, "*the overarching geo-economic dimensions to US-China trade means that resolution will be far more fraught than is the case with Mexico and Canada*".
- Beijing Hits Back: **China has responded with tariffs as well as trade/industrial action of its own**, although far more targeted in range.
  - 15% tariffs on US coal, LNG; 10% tariff on crude oil, agricultural machinery & vehicles
  - In addition, PVH Group (that owns Calvin Klein and Tommy Hilfiger) and Illumina Inc (a gene sequencing firm that has partnered Nvidia) are placed on the "Unreliable Entity" list
  - Beijing will also probe Google for anti-trust violation
  - Export control on tungsten-related materials
- Inadvertently Ups the Ante: This **tariff retaliation by Beijing** inadvertently **ups the ante on an escalatory tit-for-tat trade conflict *should Trump exercise the clause*** (in his Executive Order) ***to lift tariffs in response to retaliation***.
- Not Just Leverage: This underscores the point that **not all tariff salvos may be dismissed as pure leverage** for negotiations.
- Zero-Sum Game Geo-Economics: In particularly the **position that US assumes on China** is likely to be driven by **strategic, zero-sum-game geo-economic calculus**.
- Inflicting Loss Maximization: Crucially, this may involve an **adversarial loss maximization to be inflicted** (upon China) ***rather than profit maximization/loss minimization*** being ***prioritized for itself*** (US). And this makes all the difference.
- "China Premium": Rightly or wrongly, **received wisdom about China's relatively greater exports reliance**, and the ***assumed pressures on exports earnings*** may be consistent with a **hardening of "China premium"**, entrenching ***valuation spreads to the disadvantage of China***.
- More Persistent CNH Risks: This aspect of persistent, and imposed exports headwinds are set to ***feed off, and into***, "**downside risks in CNH could prove harder to durably shake-off**". *7.40-7.50 USD/CNH is a significantly higher risk now.*

- Wider EM Asia Spill-Over: Given the inextricable trade-/investment-linkages between China and the rest of **EM Asia, collateral damage is unavoidable**.
- Higher-Beta AXJ Pressures: In fact, **higher-beta losses in many AXJ currencies* is par for the course** given the confluence of economic-financial dependencies and relatively higher degree of renminbi stability derived from policy.
- The "Usual" AXJ Suspects: And as ***we have highlighted before KRW, THB, MYR, and AUD could be particularly vulnerable*** based on trade linkages and recent CNY-beta relations.



*Excerpt from the Macro Daily earlier today

China Risks: Not Just Leverage

- **All eyes** will be **on the talk between Presidents Trump and Xi** later today. The first pass is whether a **deal to delay tariffs on China** is struck.
- But that is the **absolute low bar**. Whereas assessing where tariffs will head from here will be key.
- Fact is, the overarching geo-economic dimensions to US-China trade means that resolution will be far more fraught than is the case with Mexico and Canada.
- The **(tariff) tool may be the same**. ***But the game is different*** and the stakes high. Hence, **downside risks in CNH could prove harder to durably shake-off**.