

# China's sanctions gambit: Formal and informal economic coercion in the second trade war

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## Summary

- Beijing's response to the second trade war in the first half of 2025 has featured more forceful retaliation compared to the first US–China trade war in 2018–2020. China not only matched US tariff increases to a level that would have functionally severed economic ties, but also escalated using a range of sanctions tools, demonstrating a capacity to impose severe costs on specific US firms and industries.
- China deployed a combination of time-tested “informal” coercive instruments, such as opaque import restrictions and selective enforcement of technical domestic regulations, and newer “formal” tools, such as official sanctions listings against US defence industry firms, as well as export controls on critical raw materials. Many of these restrictions were deployed under a flexible two-step method – first establishing legal grounds for escalation, and then activating them when strategically opportune.
- Beijing's bold use of coercive measures may have helped to quickly push Washington to the negotiating table in early May. The growing use of formal sanctions, more akin to western-style legal tools for sanctioning, might have delivered a more intelligible and credible threat to US officials and firms, helping to drive home the message that economic confrontation with China can carry steep and certain costs. Despite Trump's initial warning that retaliation to his global “reciprocal tariffs” would be punished, it is possible that China's retaliatory response has afforded it more rather than less leverage than refraining from countermeasures.
- China's restrictions also pose challenges for third parties. Although widely interpreted as retaliation targeted at the United States, China's new export licensing procedures on rare earths delayed the delivery of key inputs to other markets, including in Europe where some firms were forced to halt production. Rather than a coincidental side-effect, this might have been a deliberate warning to the EU and other actors not to impose further economic restrictions on China or coordinate trade measures with Washington.

## Introduction

On 12 May 2025 the United States and China defied global expectations when they announced a temporary truce in their trade war following talks in Geneva.<sup>1</sup> The agreement to suspend recently imposed trade barriers for 90 days marked a shift away from the spiral of retaliatory measures that began in February and escalated sharply on 2 April with President Donald Trump's steep "Liberation Day" tariffs against a number of countries that Washington claims run excessive trade surpluses with the United States. The early announcement of a pause also stood in sharp contrast to what happened the last time the two countries were locked in a trade war spiral. In the first trade war, which began in July 2018, it took almost six months for the first truce to be declared, and a deal to unwind tariffs was not signed until January 2020.<sup>2</sup> The Geneva consensus, which has been subject to further negotiations, including in London in early June, was reached in half that time, just three months after Trump's initial tariffs on Chinese exports in February.

While the White House sought to frame the deal as a "win", commentators were quick to point out that Trump repeatedly vowed not to lower tariffs unless China made concessions – which it seemingly had not done at the time of the Geneva deal.<sup>3</sup> Instead, many suggest that Washington "blinked", unable to sustain its tariff threats when faced with resistance.<sup>4</sup> Several factors may have contributed to the willingness of the US to seek a negotiated outcome with China so quickly, with reports suggesting there was mounting pressure on Washington from various domestic interest groups affected by the disruption arising from Trump's global tariffs.<sup>5</sup> This brief explores one element that may have played an important role in pushing Washington to the negotiating table: China's use of a broader and more formalised suite of retaliatory economic measures compared to 2018.

## Five rounds of escalation

Trade tensions between Beijing and Washington began mounting on 1 February when President Trump added 10 percent to the existing tariff level on Chinese imports.<sup>6</sup> During each round of retaliation, China imposed a wide mix of economic restrictions (see Timeline).

### Timeline

China's economic restrictions in the second US–China trade war prior to the Geneva truce on 6 May

#### Round 1

##### **China imposes limited energy tariffs, initiates export controls and sanctions listings (4 February)**

As Trump's initial 10% tariff on all Chinese imports takes effect, Beijing responds with a limited 10–15% tariff on energy products and focuses its firepower elsewhere – imposing export licensing on five key minerals used in the defence industry, semiconductors and clean energy, adding PVH Group and Illumina to its Unreliable Entity List and launching an anti-monopoly probe into Google.

## Round 2

### **China imposes limited agriculture tariffs, and adds import bans and targeted sanctions (4 March)**

When Trump raises tariffs to 20%, Beijing again avoids escalation through tariffs – imposing only a 10–15% levy on US agricultural goods – but intensifies pressure through other means. It suspends soya bean and log imports on food safety and biosafety grounds, launches an anti-dumping investigation into optical fibre and expands sanctions to additional US defence companies, while imposing further restrictions on Illumina.

## Round 3

### **China matches broad tariffs, and expands export controls and sanctions (14 March)**

Following Trump's announcement of a 34% "reciprocal tariff" hike – raising total tariffs to 54% – China responds in kind with a 34% levy on all US goods. It establishes export licensing requirements for seven rare earth elements critical to the defence sector, electronics and clean energy, sanctions more US defence contractors, halts poultry and sorghum imports, citing food safety, and launches an anti-monopoly investigation into DuPont.

## Round 4

### **China matches US tariffs again, maintains non-tariff pressure (9 April)**

As Trump raises the reciprocal tariff from 34% to 84%, bringing the total to 104%, Beijing matches the move by bringing its own tariff to 84%. It also continues to add sanctions pressure, listing several US defence firms and issuing a travel warning for the United States.

## Round 5

### **Tariffs peak, China mocks further escalation (13 April)**

As Trump pushes tariffs to at least 145%, China responds by raising its tariff level to 125% but signals that it will not rise further, dismissing the trade war as "a joke in the history of the world economy". It also retaliates by reducing imports of Hollywood films and instructing airlines not to take any further deliveries of Boeing jets.

## A deal is reached in Geneva

(6 May)

Ahead of negotiations in Switzerland, Trump signals a willingness to lower tariffs. In Geneva, the parties agree to a 90-day tariff rollback, the US reduces tariffs from 145% to 30%, and China lowers its rate from 125% to 10% while agreeing to suspend non-tariff measures imposed since 2 April.

In both 2018 and 2025, China kept pace with US tariff escalation, largely matching the level of its levies – reluctantly at first, but ultimately with determination. This early restraint followed by decisive action reflects the official line from Beijing. In April 2025, the Foreign Ministry explained that China “does not want to fight” but if the United States insists, it was determined to see the fight through.<sup>7</sup> Similarly, China’s ambassador to the United States stated in 2018 that China had “done the utmost to avoid this kind of situation, but if the other side makes the wrong choice, then we have no alternative but to fight back”.<sup>8</sup>

In the second trade war, however, following this policy carried significantly greater risk for Beijing. The executive order announcing Trump’s “reciprocal tariffs” on 2 April clarified that “should any trading partner retaliate ... I may further ... increase or expand in scope the duties imposed”.<sup>9</sup> The White House initially followed through on this threat, raising tariffs on Chinese goods in successive rounds to a peak of 145 percent. Combined with China’s counter-tariffs of 125 percent, these levels would have risked a near-complete trade interruption between the world’s two largest economies.<sup>10</sup> For Beijing, already facing slower growth and challenges to its export-led growth model, this was a high-stakes gamble. Granted, China, like many other countries, probably expected Trump to back down, as he ultimately did during the first trade war, but there was no guarantee that history would repeat itself, especially given the unpredictability of the current leadership. When Trump announced his willingness to reduce tariffs in early May, China’s lead negotiator He Lifeng (何立峰) must have breathed a heavy sigh of relief.

The second notable feature of China’s response is that on several occasions Beijing escalated beyond merely matching US tariffs by deploying a broad array of non-tariff measures, many of which were sweeping in scope. In the first trade war, China appeared initially to have been caught off guard by Trump’s aggressive tariff strategy. Its response was largely symmetrical, comprising five rounds of retaliatory duties that targeted politically sensitive US sectors while minimising harm to its own economy.<sup>11</sup> Although the US also imposed export controls and blacklisted companies such as Huawei, China’s actions beyond tariffs were limited to a few, relatively cautious informal steps – increasing customs checks on various US goods, tightening quarantine procedures and scuttling the US semiconductor company, Qualcomm’s, planned acquisition of Dutch chipmaker NXP.<sup>12</sup>

By contrast, China embraced a more “gloves off” approach to coercive economic bargaining in the spring of 2025. While Washington mostly refrained from deploying non-tariff measures, Beijing escalated using a diverse set of tools. It imposed export controls on raw materials critical to US defence and technology sectors, sanctioned a range of US entities, drew on familiar tactics, such as blocking imports on health and safety grounds, and launched anti-monopoly and anti-dumping probes into firms and products. Beijing’s escalation in

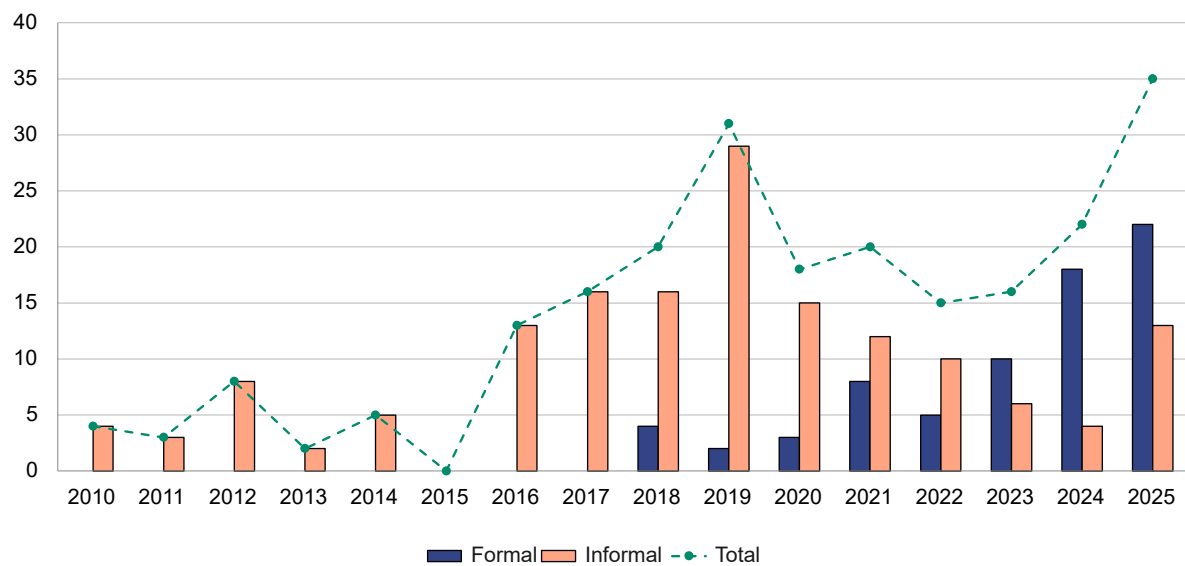
this manner not only demonstrates a significant and potentially growing tolerance for risk when retaliating against US economic pressure, but also marks a continuing maturation of the formalised, legal toolkit it has gradually been developing since 2018, in addition to the continued relevance of informal-style sanctions.

## **China's formal and informal economic weapons**

Officially, China has long shunned unilateral economic sanctions, portraying them as a tool of “economic hegemony” used by the United States to interfere in the domestic affairs of other countries.<sup>13</sup> When imposing its own sanctions, Beijing has overwhelmingly done so discreetly, eschewing the use of public threats and denying state involvement after the restrictions have been put in place.<sup>14</sup> Rather than relying on transparent legal tools for imposing sanctions, it has opted for “informal” methods, whereby the government discreetly pulls the strings in the background instead of publicly taking responsibility for its actions. Examples include encouraging consumers to boycott multinational companies, instructing customs authorities to delay or prohibit imports from certain countries and invoking technical domestic regulations, such as antitrust or occupational health and safety rules, to obstruct foreign business operations in China.<sup>15</sup> Denial of state involvement has allowed Beijing to preserve a veneer of policy coherence by claiming that it is not engaged in the same type of economic bullying and long-arm jurisdiction as the US, and that China stands by its long-held “non-interference” principle.

In recent years, however, the actions of China's leaders suggest they may have concluded that the informal style of sanctioning is no longer sufficient.<sup>16</sup> In a new original database, a beta version of which can be browsed at the China Sanctions Monitor website ([www.chinasanctionsmonitor.com](http://www.chinasanctionsmonitor.com)), we document how Beijing has increasingly resorted to publicly acknowledged and legally imposed economic restrictions since 2020, most of them directed at the US and Taiwan. Our mapping of over 200 individual sanctions imposed between 2010 and 2025 shows that formal restrictions appear to have overtaken informal ones as Beijing's main sanctioning method in 2023.<sup>17</sup> That trend has held steady since (see Figure 1).<sup>18</sup>

**Figure 1** China's unilateral economic sanctions by formality



**Note:** Formal sanctions refer to state-imposed restrictions on economic exchange that the government explicitly links to political or security goals and enforces through official laws intended for these purposes. Informal sanctions are restrictions initiated or encouraged by the state but not officially acknowledged as politically motivated or security-related. The government might justify them on other grounds, such as food safety or as antitrust measures, or deny involvement entirely, attributing them to independent actors (e.g., patriotic consumer boycotts).

In the trade war, China drew on a mix of newly developed formal tools and established informal methods. Many of its targeted sanctions – issued under the Unreliable Entity List, the Anti-Foreign Sanctions Law and the Export Control List – took aim at defence firms with limited commercial ties with China, although some companies with deeper economic connections, such as the clothing giant PVH Group and the biotech firm Illumina, were also added to the Unreliable Entity List.<sup>19</sup> China's broader export controls, by contrast, had far greater disruptive potential. In response to US tariffs, Beijing imposed export licensing requirements in two rounds: first targeting five strategic minerals, then extending controls to seven rare earth elements used in sectors such as defence, high-tech and clean energy.<sup>20</sup> Because China dominates the global supply of these raw materials, its export controls threatened to impose significant costs across a broad range of US industries.

It is noteworthy that many of China's tools of economic coercion have recently been deployed in a "two-step" method – first putting legal measures in place that establish the basis for escalation, then activating them when tensions rise. In response to US technology restrictions under the Biden administration, China gradually introduced export licensing requirements on gallium, germanium, graphite and antimony, as well as superhard materials. Observers noted that these regulations, which require exporters to share information with the government, gave Beijing visibility of supply chains, end-users and transaction volumes, positioning it to strike more precisely if required in the future.<sup>21</sup> In December 2024, it followed up with an official ban on exporting these materials to the United States in response to a new round of US sanctions.<sup>22</sup> During the second trade war with the Trump administration, China introduced similar licensing requirements on raw materials, but stopped short of an official

ban. Instead, it kept the threat of a complete halt hanging over US firms while retaining discretion to calibrate pressure by tightening or easing export approvals.

The two-step method also appears in China's informal toolkit. Chinese authorities have placed an increasing number of US firms under sustained legal uncertainty by selectively deploying unrelated regulatory tools. Antitrust investigations have been launched into semiconductor manufacturer Nvidia, tech giant Google and chemical maker DuPont, while US optical fibres and X-ray components for medical purposes have been subject to anti-dumping probes. Cases like these can linger for extended periods without formal conclusion, operating as latent threats Beijing can choose to activate when it finds it strategically opportune.

## China's trade war gambit

On balance, the outcome of the Geneva deal appears to have been favourable to Beijing. Both sides agreed to a temporary tariff rollback of 115 percent, bringing Washington's combined tariff rate down from a peak of 145 percent to 30 percent – a 10 percent “reciprocal” levy plus a 20 percent surcharge tied to China's alleged role in the fentanyl trade. When it first unveiled its global Liberation Day tariffs, the Trump administration warned that any retaliation would be met with punishment. Despite striking back, however, China now finds itself in a negotiating position comparable to that of countries that chose not to retaliate.<sup>23</sup> Following the Geneva meeting, Washington also appeared to warm to a negotiated outcome. Treasury Secretary Scott Bessent stated that the US and China were “in agreement that neither side wants to decouple” while Trump remarked that he was “not looking to hurt China”.<sup>24</sup> By matching Washington's escalatory measures, Beijing may have succeeded in setting the tone for future talks, such as those held in London in early June, on more equal footing. It may also have gained symbolic capital in the Global South and elsewhere by presenting itself as a country willing and able to defy US threats.

While the Trump administration's decision to compromise probably stemmed from multiple factors, notably an apparent underestimation of the market fallout triggered by its own global tariffs, China's assertive posture almost certainly influenced the outcome. Beijing not only signalled its willingness to match broad tariffs, but also demonstrated a capacity to impose high costs on specific US firms and industries through a range of sanctions tools. The Geneva joint statement notably includes an explicit commitment by China to “adopt all necessary administrative measures to suspend or remove the non-tariff countermeasures taken against the United States since April 2, 2025”, which suggests that these measures provided leverage in the negotiations.<sup>25</sup> Unlike the informal, often opaque tools used in the first trade war, China's expanded reliance on formal sanctions, more similar in form to western-style legal frameworks, may have delivered a more legible and credible threat to US officials and firms, helping to drive home the message that economic confrontation with China carries steep and certain costs.

Furthermore, the agreement did not specify which non-tariff measures China would withdraw – an ambiguity Beijing has not let go to waste. It has portrayed its new rare earth export controls as unrelated to the trade war, claiming they are “not targeted at any specific country”.<sup>26</sup> Instead, these measures are described as routine restrictions to prevent dual-use items from ending up in military equipment, “in line with international practice” and intended to fulfil “international obligations such as non-proliferation”, suggesting that the



legal framework will remain in place.<sup>27</sup> The licensing procedures have already disrupted global supply chains. Since late April, companies have submitted a flood of applications to the Ministry of Commerce's Bureau of Industrial Security and Import and Export Control. As of early June, however, only a small fraction had been approved – delaying supplies for car makers, semiconductor manufacturers, aerospace firms and defence contractors worldwide.<sup>28</sup>

These export controls have been at the centre of US-China discussions following the Geneva deal. After a phone call with President Xi Jinping on 5 June, President Trump stated that Xi had agreed to let rare earth minerals and magnets flow to the United States, although no practical details were disclosed.<sup>29</sup> Following further negotiations in London on 9–10 June, it was reported that Beijing had agreed to ease rare earth export curbs but put a six-month limit on its licences, suggesting a desire to preserve leverage should tensions flare up again.<sup>30</sup> In short, China's dominance of supply chains in this sector has provided a major pressure point on the Trump administration. Although these export controls rest on a legal foundation, Beijing has retained flexibility in their enforcement. Notably, by attributing some delays to bureaucratic backlog, it may be able to calibrate this pressure without overt escalation.

## Europe's new problem

China usually exercises caution when it comes to weaponising exports. Prior to introducing its first round of raw material export controls against the Biden administration in 2023, the last significant curtailment of critical goods had occurred more than a decade earlier, in 2010, when China restricted rare earth shipments to Japan following the arrest of a Chinese fishing crew near the disputed Senkaku/Diaoyu Islands.<sup>31</sup> Instead of cutting off vital supplies to targets, Beijing's preferred method has been import restrictions, limiting foreign access to its vast consumer market.<sup>32</sup> One reason for this restraint might be that export controls often trigger forceful reactions that could undermine China's long-term market position and future leverage. China's controls against Japan, for instance, prompted a decade-long diversification effort that significantly reduced its dependence on China.<sup>33</sup> The most recent trade war, however, may have pushed China out of its cautious stance on restricting exports.

Europe has already been caught in China's export control web. The new licensing regime, which is global in scope, has delayed deliveries of key inputs to the continent, and there are reports that certain medical equipment producers and carmakers have been forced to halt production.<sup>34</sup> Some observers believe that the delays reflect a temporary bureaucratic backlog caused by a surge in licence applications, and note that Beijing, which has recently sought to mend ties with Brussels, has little incentive to upset the relationship.<sup>35</sup> Others, however, including several EU officials, consider the delays to be coercive. The EU is in the midst of taking steps to defend its industries from what it sees as unfair competition from Chinese electric vehicle manufacturers and has signalled possible coordination with Washington on joint action against China. In this context, the supply interruptions convey a warning about the costs of moving further in this direction.<sup>36</sup> In effect, the trade war has triggered the use of a powerful tool long held in reserve by Beijing – one that may now be wielded to complicate Washington's coalition-building efforts in Europe and beyond.<sup>37</sup>

While the interruptions might accelerate the EU's efforts to diversify under the Critical Raw Materials Act, the bloc remains a long way from meaningfully reducing its reliance



on Chinese inputs. In the years ahead, Europe should be prepared for the possibility that China could use export controls more frequently, not only to pressure member states and derail EU policies it opposes, but also to target firms that pose a threat to its commercial dominance. The challenge is particularly concerning given that parts of Europe's defence industry rely on Chinese rare earths, raising questions about how an interruption would affect the continent's ability to sustain military support for Ukraine. Some analysts have gone so far as to suggest that the EU declare a "critical raw materials emergency" in response.<sup>38</sup> China's export controls on drones could be an early sign of how such measures might affect Europe's strategic interests. In 2024, reports surfaced that Beijing was restricting the supply of drone components to European firms, and in May 2025 President Volodymyr Zelensky disclosed that China had stopped selling certain drones to Kyiv and other European nations while continuing shipments to Russia.<sup>39</sup>

On the other hand, it would be strategic for China to avoid fighting wars on multiple fronts. As the trade war with Washington escalated, Beijing extended some olive branches to Europe. In recent days and months, the Chinese government delayed the conclusion of ongoing anti-dumping probes into EU pork and brandy imports, initiated in response to EU anti-subsidy levies on Chinese EVs, and lifted Xinjiang-related sanctions on five Members of the European Parliament.<sup>40</sup> Even as Beijing turns to formalised retaliatory sanctions, it has retained a degree of ambiguity and flexibility on implementation. This facilitates the calibration of pressure and the selection of targets, suggesting that China is still seeking to entice potential partners even while punishing others. For example, reports indicate that some of the first rare earth export licences were approved for companies such as Volkswagen – a vocal advocate of cooperation with China – while US companies remained on the outside.<sup>41</sup>

Regardless of how these specific controls play out, recent trends in China's use of coercive economic measures pose challenges for the EU. Some may have hoped that China's pivot towards more explicit and formalised tools for sanctioning would introduce more transparency and predictability, but it is far from clear that this will be the case. China's new export controls may be formal and legal on paper, but in practice they appear to share characteristics of China's more traditional informal measures. Licensing decisions remain opaque and are justified in vague terms, such as "safeguarding national security" or guaranteeing "non-proliferation". Thus, if Beijing wished to disrupt the operations of a European firm, it could probably do so without leaving much evidence that would meet the burden of proof in World Trade Organization litigation. This underscores the need for the EU to continue to sharpen its monitoring and intelligence tools. Detecting when Chinese restrictions cross the line into coercion – allowing the EU to activate its Anti-Coercion Instrument – will require more rigorous and targeted evidence-gathering, especially since any finding of coercion must be formally endorsed by member states, some of which might prefer to avoid escalation with Beijing.

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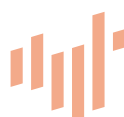
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