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SHAPING VIBRANT INDIA

US-China – Initial trade deal

Following years of punitive tariffs and intermittent talks, trade tensions between the US and China surged in early 2025. Citing trade imbalances and concerns over fentanyl, the US imposed sweeping new tariffs, reaching up to 145%, under emergency powers. China retaliated with matching tariffs of up to 125% and additional non-tariff barriers, effectively halting bilateral trade worth nearly USD 600 billion.

Amid growing economic and political pressure, both sides returned to the negotiating table in Geneva on 10-11 May 2025. The resulting joint statement outlined immediate tariff rollbacks and a renewed commitment to ongoing dialogue.

Key changes announced:

The US and China have formally concluded an initial trade deal in Geneva, announced on 12 May 2025, following months of heightened trade tensions. This development marks a significant, albeit temporary, de-escalation of the bilateral trade war that has disrupted global supply chains since 2018.

The deal introduces a 90-day tariff truce that came into force on 14 May 2025. It establishes a bilateral dialogue mechanism and aims to restore market confidence while deferring the resolution of core structural issues.

Highlights of the deal:

- **Temporary tariff reduction:** The US will suspend 115 percentage points of additional tariffs on Chinese goods, reducing the duty rate from 145% to 30% for a period of 90 days (effective 14 May to **12 August 2025**). In parallel, China will reduce its retaliatory tariffs on US goods from 125% to 10% for the same period. The relief covers a broad spectrum of exports, including US agricultural products and manufactured goods, and is expected to facilitate renewed trade flows.
- **Non-tariff barriers:** China has agreed to lift certain non-tariff countermeasures introduced in April 2025, notably export restrictions on rare earth minerals and regulatory obstacles affecting US firms. The deal introduces a 90-day moratorium on new tariff actions, providing short-term certainty for global supply chains.

- **Sectors not covered by the truce:** Core security and technology-related tariffs, such as US Section 301 tariffs (7.5–25% on ~USD 370 billion of Chinese goods), Section 232 tariffs on steel and aluminium, and the 20% fentanyl-precursor tariff, remain entirely in effect. Existing Chinese retaliatory duties on US high-value goods and agricultural exports (imposed since 2018-19) remain essentially unchanged.
- **Dialogue mechanism:** The parties will establish a new bilateral forum for ongoing economic and trade discussions, co-chaired by China's Vice Premier He Lifeng and US Treasury Secretary Scott Bessent/USTR Jamieson Greer. This mechanism is intended to facilitate the resolution of remaining issues, with meetings alternating between countries or in third-country venues.

Our Comments

The May 2025 Geneva agreement between the US and China marks a key but temporary de-escalation in a major trade conflict. By partially reversing the April 2025 tariff hikes and reopening negotiations, it offers short-term relief to exporters, importers, and global markets, especially in agriculture, manufacturing, and consumer goods. The deal also suspends new tariffs and removes some non-tariff barriers, aiding trade normalisation.

However, many tariffs from earlier phases remain, particularly in tech and security-sensitive sectors. Key levies like the 20% fentanyl-precursor tariff and Section 301/232 duties are untouched, keeping costs high for affected firms.

The agreement includes a 90-day window for further progress. Suspended tariffs will return on 12 August 2025 without a follow-up deal, risking renewed tensions. Businesses should use this relief period strategically while preparing for multiple outcomes.

In essence, the deal pauses, not ends, the trade war. Its long-term impact hinges on the success of upcoming negotiations.

Although the tariff pause allows China to regroup and strengthen its domestic manufacturing and export sectors, it may intensify competitive pressure on Indian producers in international markets.