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BULLETIN

U.S., China Agree Short Truce in Trade War

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Following talks between U.S. and Chinese representatives in Geneva on 10-11 May, the two countries agreed to, among others, reduce tariffs and suspend for 90 days the imposition of retaliatory measures. Although the global economy will continue to be weighed down by uncertainty about the further actions of both sides, the agreement will allow for an increase in bilateral trade and the start of negotiations that could lead to a limited trade deal.

Context of the Talks. The meeting in Switzerland, the first between U.S. and Chinese economic representatives since Donald Trump took office in January this year, was related to trade disputes between the two countries that have been escalating in recent months. Seeking to reduce its trade deficit, among other things, the U.S. imposed tariffs on a number of countries, which in the case of China was ultimately 145% (in 2024, exports from the U.S. to China amounted to $143.5 billion, while imports were $438.9 billion, resulting in a U.S. deficit of $295.4 billion). China gradually introduced retaliatory tariffs, which reached 125%. The trade war between the world's two largest economies has negatively affected their growth prospects—in April, the IMF estimated that in 2025 growth would be 1.8% for the U.S. and 4% for China, while in January this year the forecasts were 2.7% and 4.6%, respectively. Both the U.S. and China introduced a number of exemptions from tariffs, including on electronic products imported into the U.S. and goods imported to China that are difficult to replace in the short term, which demonstrated the severity of the high tariffs for both countries. The potential economic impact of a continued trade war on China's weakened and still export-dependent economy, as well as its negative impact on the U.S., which recorded a 0.3% decline in GDP at an annual rate in the first quarter of this year, could have been important factors prompting both sides to start talks. In the days leading up to the Geneva meeting, both countries argued that it was the other side that had first expressed a willingness to talk. This was intended to strengthen their negotiating position, as well as to justify the introduction of tariffs by the Trump administration and to show the Chinese government's unyielding stance in the face of U.S. pressure.

Content of the Agreement. The U.S. and Chinese delegations, led by Treasury Secretary Scott Bessent and U.S. Trade Representative Jamieson Greer and Chinese Vice Premier He Lifeng, agreed to reduce tariffs that both countries had imposed on each other since early April. The U.S. will reduce tariffs on products from China from 145% to 30% (including the 10% base rate of so-called reciprocal tariffs and 20% imposed in connection with exports of fentanyl production materials), while China will reduce the rate from 125% to 10%. As part of the reductions, 24 percentage points of customs duties will be suspended for 90 days, which refers to the difference between the base rate of the U.S. so-called reciprocal tariffs, which is 10% and the 34% tariffs announced on April 2 against China. The Chinese side has also committed to suspending or ending non-tariff measures introduced after 2 April, which may include, for example, using export controls on rare earth elements. Following talks in Geneva, the U.S. also announced a reduction in tariffs on low-value products, for example, commonly traded via e-commerce, from 120% to 54% (while maintaining a minimum fee of $100). According to media reports, the Chinese authorities are also signalling the possibility of resuming purchases of passenger aircraft in the U.S. Separate tariffs imposed by the U.S. on items including steel, aluminium and products made from them, as well as cars and car parts, will continue to apply to China, as will those from previous years (e.g., the 100% tariff on electric cars introduced by the Joe Biden administration).

The U.S. and China have also announced the creation of a consultation mechanism on economic and trade issues.

Implications for U.S.-China Relations. The agreement reached at the meeting in Switzerland may contribute to a temporary stabilisation of U.S.-China economic relations and an increase in bilateral trade, including for the purpose of building up stocks in case of a renewed escalation. However, the U.S. maintaining 30% tariffs on most Chinese products may limit the scale of imports and affect prices in the U.S. in the short term.

The outcome of negotiations over the next three months will be crucial for U.S.-China economic relations. At a press conference on 12 May, President Trump announced that his administration would seek to further open the Chinese market to U.S. products, which may suggest a willingness to conclude an agreement similar to the so-called Phase One Agreement of 2020. Given the Chinese authorities' maintenance of numerous barriers, including non-tariff ones (e.g., arbitrary use of product quality standards), their strong support for local producers and the China's pursuit of self-sufficiency (especially in the field of modern technologies), negotiations may be difficult, and any agreement could be limited in scope, covering only selected regulations and groups of goods, such as agricultural products or energy resources. The Trump administration would consider this a success, while China could reduce pressure on its economy and avoid introducing structural changes that are risky for the authorities. Given the scale of the challenges in U.S.-China economic relations and the likely diverse views within the Trump administration on the approach to relations with China, it is possible that bilateral talks will be extended beyond 90 days, which would maintain uncertainty and increase costs for the global economy. Unexpected actions, primarily on the part of the U.S., cannot be ruled out, such as threats to reinstate tariffs in order to put pressure on the other side. If no agreement is reached in the coming months, the disputes may escalate again as the parties seek to strengthen their negotiating positions. Regardless of the outcome of the negotiations, the strategic competition between the U.S. and China will continue, including in the area of modern technologies that are key to the competitiveness of their economies and military potential, as well as in reducing U.S. dependence on China, which is expected to have a positive impact on U.S. security.

Conclusions and Outlook. In the short term, the U.S.-China agreement will stabilise the global economy, which has been affected in recent months by, among other things, the Trump administration's unpredictable trade policy. This was the main reason why, in April, the IMF lowered its global economic growth forecast for 2025 to 2.8% from 3.3% predicted in January. Positive reactions to the outcome of the U.S.-China talks were visible, among others, on stock exchanges around the world. However, the temporary nature of the U.S.-China agreement may mean continued uncertainty among exporters and investors, which will negatively affect their activity and contribute to weaker global economic growth. It may also result in corporations postponing decisions on changes in supply chains, including the continued relocation of parts of their operations from China. The World Trade Organization (WTO) is being marginalised in the U.S.-China dispute. China has recently lodged a complaint with the WTO against the U.S. actions, but this was a symbolic move given the WTO's paralysis in dispute settlement. The importance of the organisation would also be diminished by the introduction of differentiated tariffs for individual states by the U.S. and its negotiating partners, which would be contrary to the organisation's most favoured-nation clause, which requires equal treatment of all members.

The U.S.-China agreement and the improvement in global sentiment may have a positive impact on the EU in the short term, as exports play an important role in its economy. The possible conclusion of a U.S.-China deal stabilising customs duties would be beneficial for EU companies due to increased predictability in global trade, but it could also reduce their competitiveness in the U.S. and Chinese markets, the EU's two largest trading partners. Even if an agreement between the U.S. and China is reached in the coming months, manufacturers, including those operating in China, are likely to remain distrustful of the stability of U.S. trade policy. This may prompt them to look for new markets, including in the EU, which would increase the inflow of Chinese overproduction and enhance competition for EU producers, including those from Poland. This could urge the EU to make wider use of mechanisms to protect the single market. Both China and the U.S. may use the bilateral trade negotiations to put pressure on the EU, including to increase access to its market. The launch of trade talks with numerous partners, including China, and their initial results (e.g., the announcement on 8 May of an agreement with the UK) may reinforce the Trump administration's belief that its approach of exerting pressure is effective and that trade can be one of the main tools of U.S. foreign policy. However, the example of China, which resisted the U.S. and highlighted the Trump administration's concerns about the negative effects of high tariffs on the American economy, may encourage other U.S. partners to negotiate more toughly, as signalled by India, for example. The EU, which is encouraging, among other things, a reduction in tariffs on trade with the U.S. and at the same time suggesting the possibility of imposing severe tariffs on imports from that direction (worth approximately $100 billion) in the event of a failure of the talks, may also strengthen its negotiating position.