

## China Economic Insights

### Navigating the 2025 US Tariff Shock: Chinese Firms' Strategies and Resilience<sup>1</sup>

March 3, 2026

*The re-escalation of US-China trade tensions since “Liberation Day” has elevated disruption risks for Chinese firms. Drawing on corporate disclosures from listed companies in Mainland China and Hong Kong, product-level trade elasticity estimates, and outward greenfield investment data, this note finds that Chinese firms have responded to the 2025 U.S. tariffs, ongoing restrictions, and broader trade tensions since 2018 through a combination of risk-sharing, internationalization, and localization strategies. Looking ahead, firms are likely to deepen domestic substitution in strategic sectors while expanding overseas operations to safeguard market access and diversify exposure, though the effectiveness of these adjustments will depend on evolving global trade policies and market conditions.*

#### I. Introduction

**1. The United States announced a new round of tariffs in April 2025, targeting imports from all countries, with a particular emphasis on China.** The “Liberation Day” announcement on April 2 introduced a 10-percent universal tariff on all imports to the United States, effective April 5, alongside a 34-percent “reciprocal tariff” on Chinese goods. Within a week, tariffs on some goods were increased to as much as 145 percent, representing one of the sharpest tariff increases since the onset of the trade war in 2018 (Appendix Figure 1). The abrupt escalation led to immediate disruptions in global trade flows and heightened financial market volatility.

**2. This note examines how Chinese firms assess, adjust, and adapt to such tariff shocks.** The analysis draws on three complementary layers of evidence. First, more than 30 publicly listed companies in Mainland China (Shanghai and Shenzhen) and Hong Kong issued disclosure statements in the weeks following the April 2025 tariff

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announcement, providing valuable insights into their exposure and mitigation strategies.<sup>2</sup> Second, by linking these corporate responses with sector- and product-level trade elasticity estimates, the paper sheds light on how tariff shocks transmit differently across industries depending on price sensitivity and substitution likelihood.<sup>3</sup> Finally, aggregated investment data based on more than 5,000 company announcements are analyzed to identify trends in outward greenfield investment, highlighting how internationalization has emerged as a medium- to long-term strategy to manage trade uncertainty and reduce vulnerability to U.S. tariff measures. Taken together, these perspectives provide a comprehensive assessment of how Chinese corporates respond to tariff shocks.

## II. Impact Assessment

**3. Disclosures from 32 publicly listed Chinese firms—from a wide range of sectors—provide an initial view of how the April 2025 U.S. tariff hikes affected operations (Figure 1).** These self-assessments, released between April and May, reveal significant variation in exposure. Roughly one-third of firms reported negligible impact, about 44 percent reported limited effects, and only one-fifth indicated moderate to high exposure (Figure 2). In response to stock market concerns around corporate risks beyond the tariff hikes, a few firms also stated that their stock price adjustments prior to the tariff increase already priced in the negative impacts of Entity List (EL)-related U.S. exports restrictions, leaving the recent tariff hike—which was imposed on exports to the United States—not relevant to them, with little to no additional impact.

**4. The degree of impact from the tariff hikes and related trade restrictions reflects three main factors—export dependence on the U.S. market, contractual terms, and procurement structure.** Firms with negligible exposure typically derived less than 2 percent of revenue from U.S. sales or reported no direct U.S. customers or export business at all. Some firms, despite a higher share of sales to the United States, also reported negligible impact because their products were specifically exempt from new tariffs. Limited-impact firms—as stated through the disclosure—either exported under Free on Board (FOB) terms, where the buyer bears tariff costs under procurement contract terms; shipped less than 10 percent of output to the United States; or sold products with readily available substitutes. In contrast, firms facing moderate or high exposure generally exported under Delivered Duty Paid (DDP) conditions; generated more than 10 percent of sales in the United States; or were subject to restrictions such as the EL—leaving them more vulnerable to direct cost pass-through and trade disruption.

**5. Firms also reported specific adjustment pressures.** Companies exporting under DDP terms initially faced the full burden of tariffs, which could render supply commercially unfeasible or constitute force majeure. However, as demonstrated in individual cases, active negotiations often led to U.S. customers assuming all or most of the new tariff costs, thereby mitigating the direct impact and preventing widespread operational disruption. Firms with diversified markets, overseas production bases, or

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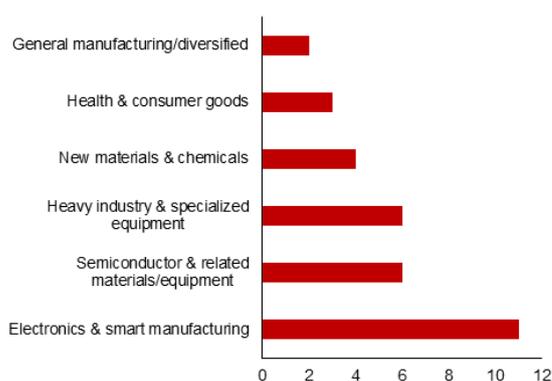
<sup>2</sup> While these disclosures reflect only a sample of the broader corporate landscape and may be biased toward firms with stronger communication practices, they nonetheless provide valuable insight into how Chinese enterprises perceive their exposure, the channels through which tariffs could affect them, and the strategies being deployed in response.

<sup>3</sup> Based on HS six-digit trade elasticity estimates provided by [Utoktham and others \(2020\)](#).

stronger negotiating positions were better able to mitigate tariff costs by redirecting shipments or shifting the burden to clients. Furthermore, several companies noted higher costs or direct restrictions on U.S.-origin components, prompting accelerated localization of procurement and greater reliance on domestic or third-country suppliers—a particularly critical adjustment for semiconductor and electronics producers.

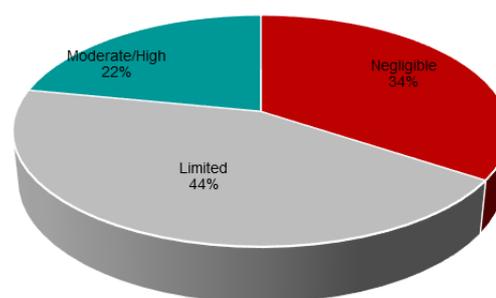
**6. Overall, tariff impacts varied widely across firms, driving risk sharing, internationalization, and localization responses.** The disclosures underscore that the burden of tariffs was distributed unevenly across firms, reflecting differences not only in direct U.S. exposure (such as share of revenue from U.S. sales) but also in contractual trade arrangements, input sourcing strategies, and global supply chain structures. This variation in immediate impact provides the backdrop to the primary strategies adopted by Chinese firms in response to the April 2025 tariffs (as well as the trade war that started in 2018): (i) risk sharing through client renegotiation and cost pass-through; (ii) internationalization of production; and (iii) localization through substitution of U.S.-sourced components. The following sections examine these strategies in detail.

**Figure 1. Sector Breakdown of Listed Firms with Tariff Impact Disclosure**  
(Number of Firms)



Source: China- and Hong Kong-listed companies' disclosures; AMRO staff compilation

**Figure 2. Overall Assessment of Tariff Impact**  
(Percent)



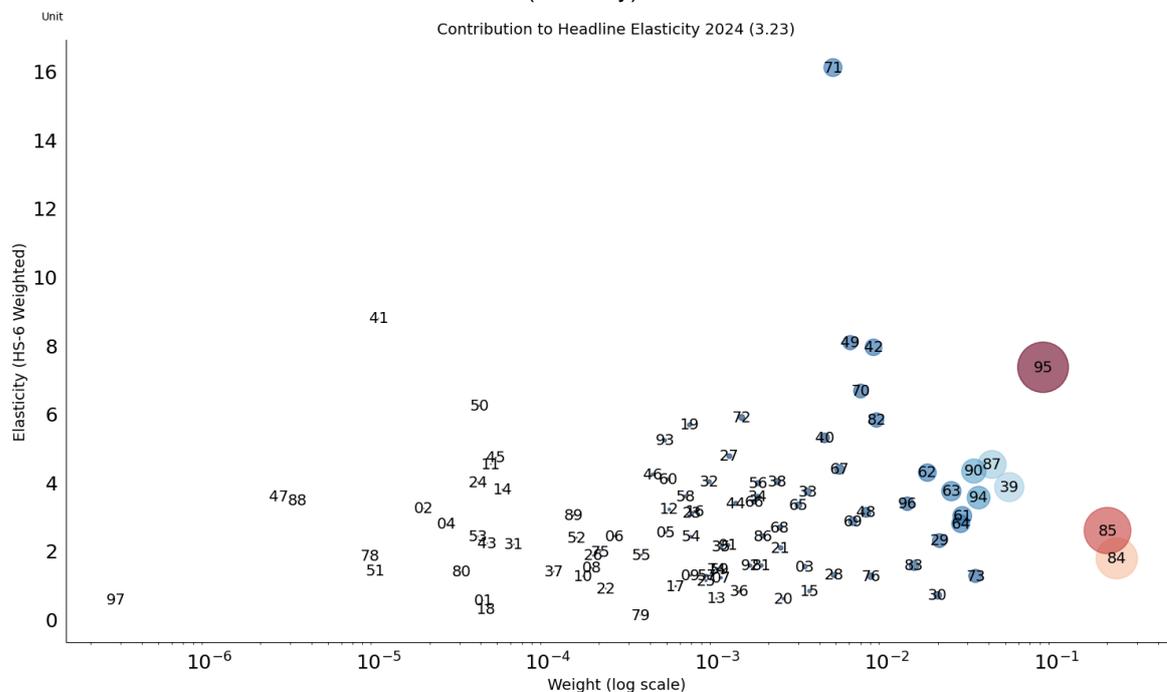
Source: China- and Hong Kong-listed companies' disclosures; AMRO staff compilation

### III. Risk Sharing Through the Lens of Trade Elasticity

**7. One of the key factors shaping how tariff costs are distributed along the value chain is the relative bargaining power of exporters, importers, and final consumers.** Central to this bargaining process is the trade elasticity of demand for the product concerned. When demand is inelastic, Chinese exporters are more likely to pass on tariff costs downstream, as buyers and end-users have limited substitution options and ultimately absorb higher prices. By contrast, when demand is highly elastic, exporters face stronger pressure to renegotiate with clients or absorb part of the tariff burden themselves to avoid demand loss and protect market share. In this sense, trade elasticity offers a practical lens for assessing whether Chinese firms can shift tariff costs to foreign buyers or must internalize them. While contract terms—such as FOB, Cost, Insurance and Freight (CIF), or DDP—determine who is formally responsible for paying tariffs, elasticity plays a key role in determining the economic incidence of tariffs, that is, who ultimately bears the cost after prices and quantities adjust.

**8. Elasticity estimates reveal a pronounced asymmetry in how the demand for different product categories of Chinese goods responds to U.S. tariffs.** Figure 3 illustrates both the aggregate elasticity of Chinese exports and its distribution across HS chapters, with the bubble sizes indicating each chapter's contribution (elasticity  $\times$  trade share). High-elasticity, large-share goods—such as toys, games, and sports requisites (HS95), electrical machinery (HS85), and machinery (HS84)—combine substantial trade value with strong price sensitivity. In these categories, production is relatively mobile, supply chains are less entrenched, and multiple low-cost producers exist globally, enabling rapid rerouting to other countries such as ASEAN and Mexico (AMRO 2021; Zhao and Ho 2023). By contrast, low-elasticity or niche goods—such as specialized industrial machinery or certain high-tech instruments—face structural substitution limits due to proprietary designs, certification requirements, and complex vendor relationships. Even when tariffs are applied, sourcing adjustments in these sectors are slower and more expensive to implement (McKinsey & Company 2020).

**Figure 3. US Import Elasticity with China Goods**  
(Elasticity)



Source: Utoktham and others (2020); S&P Global; AMRO staff calculations

Note: HS-2 level elasticity estimates are computed as trade-weighted averages of HS-6 elasticities, using the value of US imports from China as weights. Among high-weights groups, 95 refers to “toys, games, sports requisites”; 85 to “electrical machinery, equipment, sound recorders, tv equipment”; 84 to “machinery, mechanical appliances, nuclear reactors, boilers”; 39 to “plastics and articles thereof”; 87 to “vehicles, other than railway or tramway, parts and accessories”; 90 to “optical, photographic, measuring, medical instruments”; 94 to “furniture; bedding, mattresses”; 61 to “articles of apparel, knitted or crocheted”; 62 to “articles of apparel, not knitted or crocheted”; 63 to “other made-up textile articles”; 73 to “articles of iron or steel”; 70 to “glass and glassware”; 82 to “tools, implements, cutlery, spoons and forks”; 71 to “natural or cultured pearls, precious or semi-precious stones, precious metals”; and 64 to “footwear, gaiters, and similar articles”.

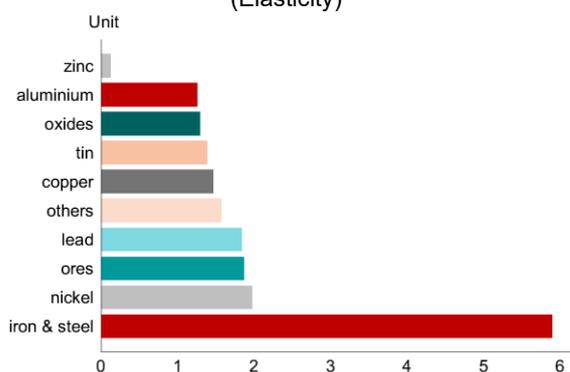
**9. Tariff impacts are concentrated in a few highly elastic sectors, while entrenched value chains limit adjustment in others.** High-elasticity, large-share sectors—such as toys, consumer electronics, and plastics (HS39), vehicles and automotive parts (HS87), furniture (HS94), and apparel and textiles (HS61–63)—exhibit significant price responsiveness and have readily available alternative sourcing options, enabling faster substitution away from China. In contrast, while machinery (HS84) accounts for a large share of trade, its entrenched value chains mean that tariffs in this sector are more likely to raise costs for U.S. producers rather than trigger rapid

diversification. As a result, the aggregate impact of tariffs is disproportionately driven by a handful of easily substitutable sectors, with effects unevenly distributed across U.S.-China trade.

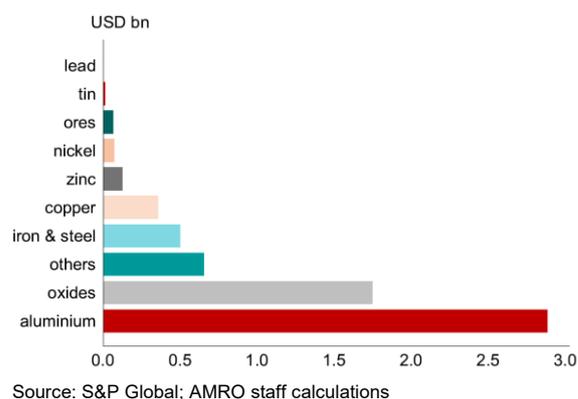
**10. Commodity categories—particularly strategic minerals and rare earths—underscore the divide in tariff leverage.** As shown in Figures 4 and 5, most of these segments, including ores, oxides, copper, nickel, aluminum, lead, zinc, tin, and other specialty metals, display relatively low price elasticity, which means US import demand from China changes little when prices rise or tariffs are imposed. China’s entrenched position reflects not only mining capacity but also dominance in refining and processing (IEA 2021). Substitution is constrained by limited alternative suppliers, technical specifications, and the capital- and time-intensive nature of developing new sources. As a result, near-term tariff leverage is modest, and China’s bargaining position remains strong. The notable exception is iron and steel (HS72), which exhibits very high elasticity—these products are more standardized, multiple competitive suppliers exist globally, and prior trade actions (such as Section 232) have already demonstrated how quickly sourcing can shift away from China.

**11. These differences in demand elasticity also help explain the strategies Chinese listed firms report in their disclosures.** Companies in low-elasticity sectors—such as rare earths, specialty metals, or certain machinery components—often emphasize risk sharing with clients, whether by renegotiating contracts, maintaining export prices, or passing additional costs further down the supply chain. Their stronger bargaining position stems from the lack of immediate substitutes. By contrast, firms in high-elasticity sectors—including toys, textiles, furniture, and consumer electronics—rarely claim full pass-through. Instead, they report absorbing part of the tariff burden through thinner margins, price discounts, or relocating final assembly to ASEAN economies or Mexico. Several firms also acknowledge that they had limited remaining scope for cost reduction, underscoring the profitability pressures faced by producers in highly competitive, price-sensitive markets.

**Figure 4. US: Elasticity for Strategic Mining Products (Elasticity)**



**Figure 5. US: Import Value in 2024 (USD, Billions)**



**12. Overall, the evidence shows that the incidence of U.S. tariffs on Chinese imports is highly uneven, shaped not only by contractual terms but also by product-specific elasticity and firm-level cost structures.** The broader lesson from the trade war is clear. In sectors where demand is inelastic, exporters retain greater

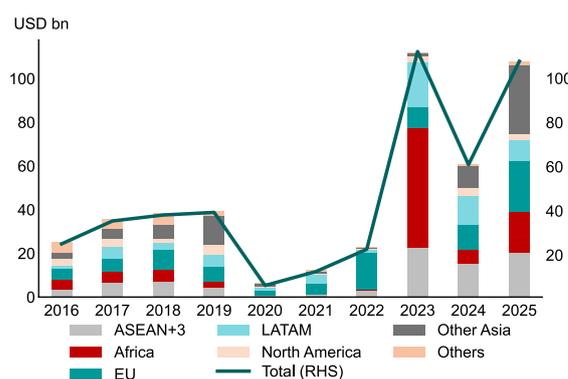
leverage to push costs downstream, while in sectors with high elasticity, they are compelled to absorb risk and undertake structural adjustment in order to preserve market access.

#### IV. Manufacturing Internationalization via Outward Investment

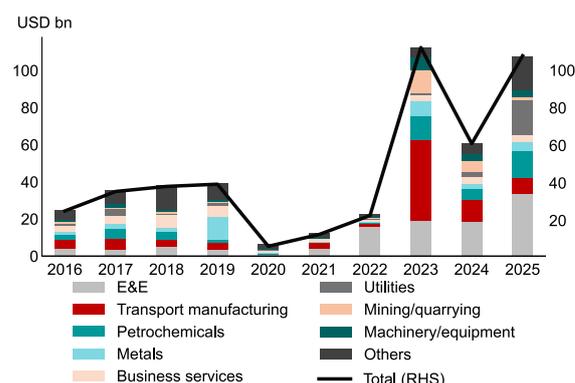
**13. A recurring theme in listed firms' disclosures is the strategic push toward the internationalization of manufacturing, which refers to the expansion or acceleration of overseas production to mitigate tariffs and geopolitical risks.** This firm-level direction aligns with the broader pattern of China's outward greenfield investments, which have trended upward since the onset of the U.S.–China trade war.<sup>4</sup> Although momentum softened during the COVID-19 pandemic, the strong rebound in 2023 propelled overseas activity to new highs, underscoring the acceleration of this structural shift. This shift may be further reinforced by the recent escalation of trade tensions, as firms seek to reallocate production toward economies with lower tariff exposure (Appendix Table 1).

**14. Geographically, outward investment flows from China reveal a clear dual-track pattern.** Advanced economies—particularly the EU—continue to attract high-tech investments, especially in batteries and electronics, cementing the region's role as a critical hub for Chinese firms seeking to embed themselves in global technology supply chains (Figure 6). At the same time, emerging markets in ASEAN+3, Latin America, Africa, and South Asia have gained prominence, hosting more resource-intensive and manufacturing-related projects. For instance, Thailand, Vietnam, and Malaysia have become major destinations for semiconductor, battery, and transport-equipment investments that mirror the relocation strategies of Chinese automakers and electronics firms aiming to avoid tariffs and shorten supply chains.

**Figure 6. China: Overseas Greenfield Investment by Region**  
(USD, Billions)



**Figure 7. China: Overseas Greenfield Investment by Sector**  
(USD, Billions)



Source: Orbis; AMRO staff calculations

Note: China's overseas greenfield investments are compiled using announced by investors from China, aggregated by host economy and sector of investment.

<sup>4</sup> Based on company-level investment announcements, which indicate firms' intended plans rather than the actual realization of investments. The data is aggregated over 5187 company announcements from 2016 to 2025. The announced but subsequently cancelled projects have been removed from the data.

**15. The sectoral composition of outward investment is also notably distinct.**

Electronics and electrical (E&E), transport manufacturing, and petrochemicals continue to dominate China's global greenfield investment portfolio. These are all sectors particularly exposed to tariff measures and geopolitical friction, as highlighted by company disclosures (Figure 7). Automakers have accelerated investments in Mexico, ASEAN economies, and Eastern Europe to sustain export growth, while E&E firms have expanded into the EU, India, and Morocco to secure market access. Meanwhile, petrochemical and metals companies, driven by resource security concerns, have scaled up projects in Indonesia, Brunei, Egypt, and Kazakhstan (IEA 2021).

**16. Ultimately, the surge in outward investment illustrates how firm-level mitigation strategies are materializing at the macro level.**

Listed companies' responses—including relocating production, building regional hubs, and securing resource inputs—are increasingly evident in aggregate greenfield flows. The pattern underscores how Chinese firms are reshaping their global production footprints—high-tech and service-related projects in advanced economies to sustain competitiveness, and resource- and labor-intensive investments in emerging markets to secure long-term supply.

## V. Localization and Source Diversification

**17. Firm disclosures also highlight localization and source diversification as core strategies to strengthen supply chain resilience amid shifting global trade policies.**

A broad set of companies—from semiconductors and materials to fasteners, optics, and shipbuilding—have accelerated efforts to reduce their dependence on single markets or suppliers. Many are actively pursuing domestic substitution, replacing imported components with locally developed alternatives and building more resilient supplier networks within China.

**18. By deepening domestic sourcing, these firms aim to shield themselves from tariff and geopolitical shocks, and in the process support the development of China's indigenous technology base.** Chinese firms have increasingly redirected their procurement toward domestic suppliers in recent years, especially in high-tech manufacturing, to mitigate risks associated with externally sourced components amid rising geopolitical uncertainty (IMF 2023). This shift is being further accelerated by policy efforts by the authorities to reduce reliance on foreign inputs, develop more self-sufficient supply chains, and upgrade the technological capabilities of domestic producers in strategic industries.

**19. At the same time, firms are diversifying their external sourcing to mitigate concentration risks.** Several companies report expanding their procurement networks to third-country suppliers to diversify input sources and hedge against future disruptions, particularly across Asia. This shift is reflected in the examples discussed in the section above, which highlight Chinese firms' accelerated investments in resource-rich economies such as Indonesia and Kazakhstan, to secure stable access to critical raw materials.

**20. Overall, these strategies complement broader internationalization efforts.**

The successful transition toward deeper domestic sourcing with diversified external

procurement can enhance the global competitiveness of Chinese firms while providing more protection against shocks. While overseas production builds external flexibility, localization and diversification strengthen internal resilience, together enabling firms to build more robust and agile supply chains in an era of growing uncertainty.

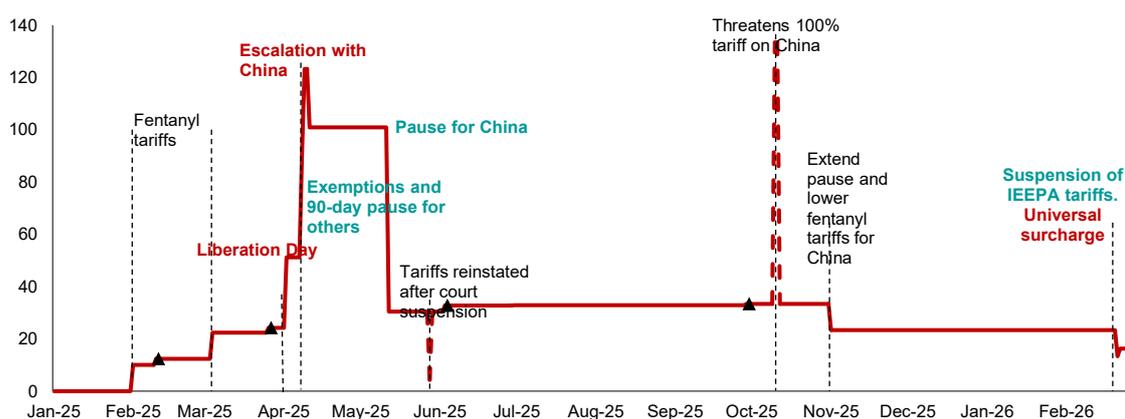
## VI. Conclusion

**21. Chinese companies have responded to the 2025 US tariffs, ongoing restrictions, and the broader trade tensions since 2018 with a mix of risk sharing, internationalization, and localization strategies.** In high-elasticity sectors, firms have absorbed part of the tariff burden to preserve market share, while in less elastic sectors, costs have been passed through more easily to downstream users. At the same time, announced outward greenfield investment points to faster internationalization and the setting up of overseas bases to maintain market access and diversify exposure. Domestically, firms are strengthening resilience through localization and import substitution, particularly in technology-intensive sectors, while diversifying procurement networks in Asia.

**22. This transition brings both opportunities and challenges.** On the one hand, localization fosters self-reliance, strengthens domestic industrial ecosystems, and opens new growth avenues, while international diversification mitigates geopolitical risks and captures new demand. These strategies are not without obstacles, however. Domestic substitution requires sustained R&D investment and ecosystem development to bridge technology gaps. Overseas expansion entails higher costs, regulatory and cultural hurdles, and operational complexities—posing challenges for smaller firms. Moreover, localization in advanced sectors still lags behind immediate market needs, leaving firms vulnerable in the short run.

**23. Chinese companies are likely to continue deepening domestic substitution in strategic sectors while scaling overseas operations to safeguard market access and diversify exposure.** Over time, this dual approach could reshape the geography of Chinese supply chains, embedding greater resilience and adaptability in an increasingly fragmented global trade environment. However, the effectiveness of these adjustments will ultimately depend on evolving global trade policies and market conditions. These adjustments demonstrate that corporate responses to tariffs are not merely defensive, but potentially transformative—marking a new phase in China's evolving integration into global value chains.

Appendix Figure 1. United States: Effective Tariff on China since 2025



Source: News Flows; United States International Trade Commission; S&P Connect Global Trade Analytics; AMRO staff calculations and Artemis database.

Note: The effective tariff excludes the exempted products following the White House Executive Order 14257 on April 2 and the clarification of exceptions on April 11 up to HS 6-digit codes, and adding the sectoral tariffs. The share of auto, steel and aluminium, and exempted products over total exports to the US is calculated based on S&P Global Trade Analytics data in 2024.

Appendix Table 1. ASEAN+3: Estimated Effective US Tariff Rates

Economy	Effective tariff (2024)	Effective tariff (April 11)	Effective tariff (May 29)	Effective tariff (June 3)	Effective tariff (October 1)	Effective tariff (November 14)	Effective tariff (Feb 21 2026)
<b>ASEAN+3</b>	5.9	33.2	20.8	22.9	25.1	19.1	12.5
<b>Plus-3</b>	7.2	36.9	25.4	27.8	28.6	20.8	13.4
China	10.9	45.2	30.4	32.8	34.0	23.4	13.4
Hong Kong, China	1.0	37.1	25.8	26.5	26.5	16.4	6.4
Japan	1.5	22.1	16.3	18.5	16.9	16.7	14.7
Korea	0.2	19.4	15.0	17.8	19.6	15.9	14.5
<b>ASEAN</b>	2.6	23.4	8.4	9.7	15.9	14.6	10.2
Brunei Darussalam	0.4	19.6	10.9	15.3	24.6	24.6	15.3
Cambodia	7.0	45.8	11.0	11.6	20.7	19.3	11.6
Indonesia	4.8	28.6	10.1	10.5	19.0	17.5	10.7
Lao PDR	5.1	43.3	9.0	9.0	36.1	36.0	9.1
Malaysia	0.6	13.3	6.9	8.4	13.5	12.3	8.6
Myanmar	7.1	43.1	10.5	10.6	39.4	39.2	10.6
Philippines	1.4	13.8	9.6	10.7	16.3	14.4	9.9
Singapore	0.1	4.4	4.4	4.9	4.9	4.2	4.2
Thailand	1.6	24.2	10.5	12.7	17.9	17.4	12.9
Vietnam	3.8	30.9	8.6	10.1	18.4	16.5	11.4

Source: United States International Trade Commission; S&P Connect Global Trade Analytics; AMRO staff calculations and Artemis database.

Note: 2024 effective tariff rate is calculated as the duties collected divided by US imports from that economy. Other tariff estimates incorporate sequential 2025 policy changes, including reciprocal and sector-specific tariffs, exemptions, pauses, and bilateral trade deals with regional aggregates computed as trade-weighted averages. The regional aggregate is the trade-weighted average of individual economies' tariff.

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