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Trade war escalates

The US and China have been embroiled in a tariff and trade war throughout this year. They previously agreed to a temporary truce which postponed the imposition of exorbitant tariffs until November. Lately, however, both countries have engaged in a tit-for-tat that targets various industries. Investors are justifiably concerned as the latest actions of the US and China have led to rising tensions that could derail the progress of trade negotiations. As a result, US and Chinese stocks remained volatile and pulled back from recent highs.

Tussle over rare earths

In response to restrictions on US technology exports, China imposed fresh export controls on rare earths and other critical minerals. China's updated export controls now cover 12 rare earth metals from seven in April. China dominates the international supply chain as it accounts for at least 60% of mined minerals and 90% of processed rare earths globally.

Rare earth minerals are essential components for defense systems such as jets, missiles and submarines. They are also utilized for the manufacturing of advanced technologies which include smartphones, semiconductors and electric vehicles. China deems its latest action as a legitimate measure under international law to safeguard national security. In the same vein, the US views rare earths as critical resources due to limited access as well as their defense and technological applications.

Trump threatens with 100% additional tariffs

Considering the importance of rare earths, Trump was particularly irked by China's new export controls. In retaliation, Trump threatened to impose an additional 100% tariff on imports from China next month. This could potentially trigger another major escalation of the trade war that would likely prompt stern retaliation from China.

Controls on technology exports

On top of existing restrictions, Trump threatened China with export controls on critical software. The US had previously restricted China's access to advanced chips, semiconductors and computing equipment which are essential for the development of China's technology sector.

Tit-for-tat

The trade war between the US and China started with tariffs but is now widening to involve other key industries. This can be seen in recent developments that we outline below.

1. Soybeans vs. cooking oil. China halted its soybean purchases from the US in May. Last week, Trump called China out and said that the US would stop buying cooking oil from China.

2. Ship docking fees. The US charged additional fees on Chinese ships that are docking in US ports. This move was mirrored by China which imposed higher docking fees on US ships.

3. Price floors and equity stakes in strategic industries. To combat China's state-backed enterprises, US Treasury Secretary Scott Bessent said that the Trump administration would implement price floors to support key American businesses. He also said that the government would explore taking equity stakes in companies in strategic industries. JPMorgan CEO Jamie Dimon announced that the bank will invest \$10 billion in critical sectors.

Bessent doubles down

Bessent has been regarded as a calm presence and the voice of reason in the Trump administration. However, his latest statements came in a stern tone which reflects some frustration over the ongoing negotiations. He said, "If China wants to be an unreliable partner to the world, then the world will have to decouple." He called China's Trade Representative Li Chenggang "disrespectful" and "unhinged." He added that stock market declines would not deter the administration from maintaining a firm stance on its negotiations with China.

US rebukes China over West Philippine Sea provocations

Last week, the US rebuked China for ramming and using water cannons on a Philippine vessel in the West Philippine Sea. A spokesperson of the US State Department said that China's actions "undermine regional stability in the face of prior commitments to resolve disputes peacefully." The involvement of the US in the territorial dispute between China and the Philippines could be another flash point that adds to US-China tensions.

US government remains in a shutdown

While the US and China continue to tussle, the US government remains in a shutdown. This has led to thousands of furloughed federal workers which would stall the administration's agenda. Failure to resolve this could disrupt businesses and slow down the economy.

Emerging concerns on credit

There are growing concerns on credit specifically on troubled auto companies, under-regulated private credit lenders and regional banks. These issues bear watching as these could turn into a bigger credit crunch that would unsettle financial markets.

Investors hope for de-escalation

The conflict between the US and China is evolving into a multi-faceted battle for global influence and supremacy. Both countries are not only seeking to stifle each other's trade prospects, but they are also striving to curtail the other's advantages in various sectors. The recent escalation of tensions has ushered market volatility. Nonetheless, investors are hoping for amicable negotiations and de-escalation. This could happen at a potential meeting between Trump and Xi at the APEC summit in Korea later this month. In the meantime, stock markets seesaw depending on developments in the trade war.

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