China Economic Perspectives

China Economic Outlook: Bracing For More Tariffs

Economics

China

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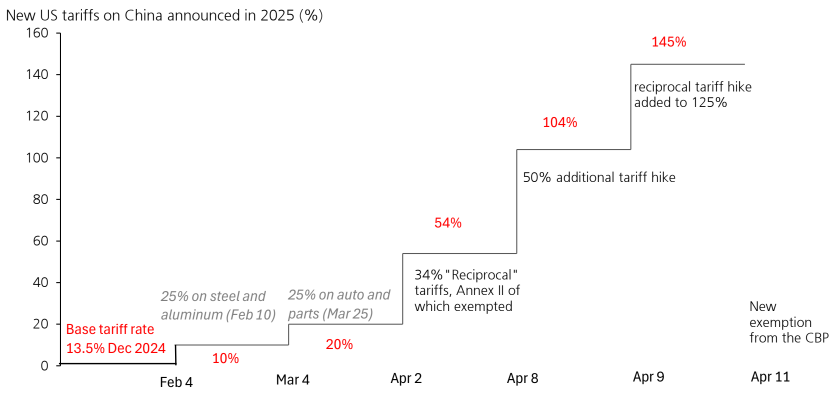
More US tariffs on China and China retaliated

The US raised "reciprocal tariffs" on China to 125% on April 9, but announced a 90-day pause on such tariffs on other economies, replacing it with a broad 10% tariff hike. The "reciprocal tariffs" is in addition to the 20% tariff hikes (related to fentanyl control) that have already been implemented by the Trump administration since early February this year, and on top of the tariffs added during the first Trump administration and Biden era. **China has retaliated with similar tariff hikes on US goods** since the "reciprocal tariffs" announcement on April 2. As of April 11, China's retaliatory tariffs on US imports stood at 125%, and said it would ignore any additional tariff hikes by the US (see China Weekly).

Electronics imports are excluded from "reciprocal tariffs" for now

On April 11, US CBP posted a notice that exempted smartphones, computers, semiconductors and other electronics goods from the US reciprocal tariffs, which we think also includes those related imports from China. These latest exemptions added an estimated $64 billion of US imports from China to those earlier exemptions (Annex II from April 2 announcement) or products that faced sector tariffs (auto and auto parts, steel and aluminum products). All in all, we estimate that slightly under 60% of US imports from China faced the 145% tariff hikes from this year (125% "reciprocal tariffs" + 20% fentanyl tariffs from Feb-Mar), while the rest faced 20%-45% tariff hikes as of April 11. The latest news suggests that some tech products on the CBP exemption list may face new sectoral tariffs still in the coming months.

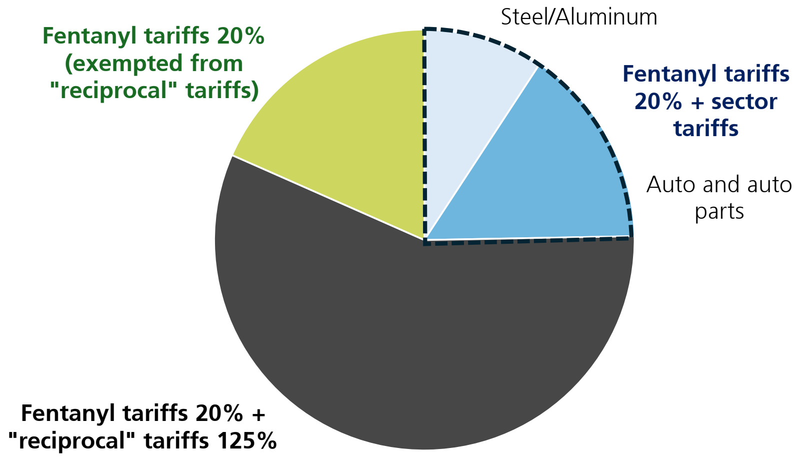
Figure 1: US tariff hiked on China in 2025



Source: White House, UBS

Figure 2: New US tariff on China

US imports from China (additional tariff rate in 2025, %)



Source: White House, UBS. Note: exemption includes Annex II from Apr 2 announcement and exemption by CBP on Apr 11; UBS estimates of April 14, 2025

How might the US and China tariffs evolve?

Given the events over the past 2 weeks, it is extremely difficult to predict how the US and China tariffs on each other might evolve. We think it is still possible for the US and China to engage in discussions and negotiations, and for both to roll off some of the recent tariff hikes in the next month or two, but that is not our baseline at this point. For the time being, our new baseline scenario assumes the currently announced tariff hikes of the US and China will remain, while the 10% US tariff hikes on the rest of the world also largely stay in a similar magnitude (at least from a China perspective) even after negotiations in the next 90 days. We think some of China's other trading partners may also raise tariffs on Chinese goods in the coming months, but likely only on specific products and not in similar magnitudes as the US tariffs. Indeed China has reiterated its intention of keeping its market open in general and more actively pursuing bilateral and/or regional trade talks with other trading partners.

Downgrade our China GDP growth forecast

Given the extremely large uncertainty around the eventual tariffs related to China and US tariffs on the rest of the world, we approach the estimation of tariff impact with great caution and underscore the unusually high margins of error. Under our current new baseline assumptions, **we estimate tariff hikes this year to pose a more than 2ppts drag on China's GDP growth**. We expect China's exports to the US to fall by 2/3 in the coming quarters and its overall exports to fall by 10% in USD terms in 2025, the latter also takes into account slower US and global growth (see US forecast update and Eurozone forecast update). While tariff exemptions will likely reduce the inflationary pressure somewhat in the US, we expect they are unlikely to affect importers' desire to find alternatives to imports from China. Therefore, we expect continued negative impact of the tariff hikes on China's exports in 2026.

We expect China to roll out new policy measures to support the economy

We think this will likely include a broad fiscal expansion by another 1.5-2ppt of GDP. Additional fiscal expansion could be used to 1) alleviate the pains of exporters and manufacturers suffering from the shock, 2) support local government finances and infrastructure spending, 3) expand the consumption trade-in programs further and roll out new support measures, and 4) increase social spending and subsidies to the household sector (including those for child care and child birth). We also expect the government to push for more progress in property inventory destocking. While monetary policy will likely continue to play a supplementary role, we think policy rate and RRR may be cut starting from April-May, with total policy rate cuts of at least 30-40bps. Policies that are already in the pipeline may be rolled out first, for example childcare/childbirth subsidies.

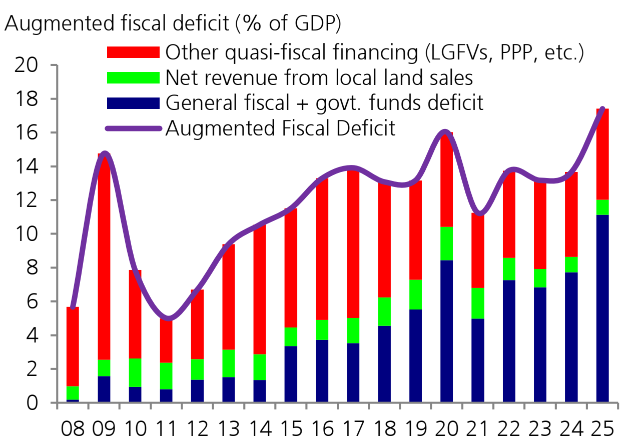
We downgrade our GDP growth forecasts to 3.4% for 2025 and 3% for 2026

We think the tariff shock poses unprecedented challenges to China's exports and will set forth major adjustment in the domestic economy as well. With the expected additional policy support, we now think China's GDP growth may be stabilized at 3.4% this year, and slow further to 3% in 2026 with continued negative impact on domestic investment and consumption, and a fading impact of policy stimulus. While China's retaliatory tariffs may push up prices of some imports, the US tariffs would reduce China's external demand sharply and add downward pressures to domestic prices in China. We therefore expect China's CPI inflation and GDP deflator to be negative in both 2025 and 2026.

We do not expect significant USDCNY movements in either direction

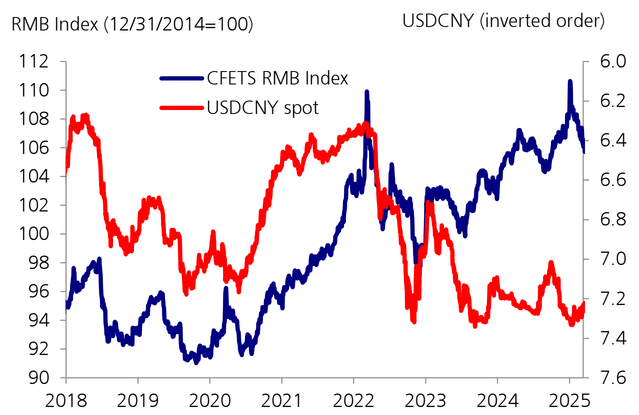
The recent US tariff hikes have put depreciation pressure on the CNY. However, the USD has also weakened against other major currencies, contrary to what most have expected before. We still do not expect China to actively use CNY depreciation as a policy tool to counter the tariff hikes or allow the currency to depreciate significantly. Given the large demand shock and deflationary pressure in China, we also do not believe the CNY should be managed to appreciate significantly, even in an scenario where some trade agreement is reached and some tariff hikes are rolled off. Therefore, we expect USDCNY to trade around 7.5 at end 2025, though it may move in the range of 7-7.6 throughout the year.

Figure 3: We expect a broad fiscal expansion by another 1.5-2ppt of GDP in 2025 on top of NPC stimulus



Source: CEIC, UBS estimates

Figure 4: USDCNY may weaken modestly in 2025



Source: CEIC, UBS estimates

Figure 5: China economic forecast update

	2024	2025E	2026E	Real GDP growth (%y/y)	
Nominal GDP growth (%)	**4.2**	**2.7**	**2.5**		
Real GDP growth (%)	**5.0**	**3.4**	**3.0**	Q124	5.3
Gross fixed capital formation	2.2	3.9	4.0	Q224	4.7
Consumption	4.1	4.4	3.3	Q324	4.6
Net exports (contribution to GDP, ppt)	1.7	-0.7	-0.3	Q424E	5.4
Current account surplus (% of GDP)	**2.2**	**1.9**	**1.6**	Q125E	5.2
Trade surplus (% of GDP)	**4.1**	**3.9**	**3.6**	Q225E	4.4
Exports growth (%, in USD)	7.2	-10.0	-6.0	Q325E	2.8
Imports growth (%, in USD)	2.2	-11.0	-6.0	Q425E	1.9
CPI (average, %)	0.2	-0.6	-0.5	Q126E	1.4
10-year CGB yield (end year, %)	1.7	1.5	1.5	Q226E	2.6
Credit growth (official TSF, %)	8.0	8.8	8.2	Q326E	3.7
USDCNY (end year)	7.30	7.50	7.50	Q426E	3.9

Source: CEIC, UBS estimates

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