

# The impact of US tariff exemptions on China

## Chinese economy

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- The US tariff rollbacks on electronics and autos are encouraging but piecemeal for China, with ~60% of Chinese exports to the US still facing a 145% tariff hike.
- China appears to be in no hurry to enter into trade talks with the US and has officially denied formal negotiations with the US thus far.
- We think US reciprocal tariffs will need to fall to sub-34%, at a minimum, before China enters talks.



Source: Getty images

The US has made a few product-based tariff exemptions or roll-backs in recent few weeks, alongside some back-and-forth positioning over China tariffs.

**Auto tariff concessions.** President Donald Trump signed an Executive Order on 29 April to ease some auto tariffs. First, automakers can get a tariff rebate on auto parts of up to 3.75% of US-made car sales for year one (3 Apr 2025 to 30 Apr 2026); and up to 2.5% in year two. Notably, USMCA compliant parts in Mexico/Canada for US vehicle assembly will remain exempt.

Furthermore, foreign-made autos facing 25% tariffs won't be subjected to other tariffs i.e., steel & aluminum, and fentanyl tariffs, though there appears to be a separate clause that China's 20% fentanyl tariffs still stack.

This could be marginally positive for the Chinese auto parts industry, whose exports to the US amounted to about USD 17bn in 2024, or 17% of China's auto part exports. But given China's auto parts' tariffs still amount to about 70%, even after the 3.75% rebate, we think the new rule may result in further rerouting / production relocation toward countries like Mexico. The direct impact on China's auto exports to the US would be more limited, given minimal

exposure to the US—USD 3.7bn in 2024 or 3% of China's total auto exports.

**Electronic-related exemptions.** On 12 April, the US announced the exemption of electronic goods from reciprocal tariffs, including imports from China, mainly smartphones, computers and some other electronic products. The value of Chinese goods on the exemption list is estimated at about USD 100bn, representing nearly 20% of China's total exports to the US. Note that the US depends heavily on China's consumer electronic imports, especially game consoles (86%), PC monitors (79%), smartphones (73%) and laptops (66%), imported from China last year.

Key US imports from China (2024 value)

Product	US total imports (USD bn)	US imports from China (USD bn)	China share in US total imports (%)
Game consoles	7	6	86
PC monitors	6	5	79
Toys	18	14	76
Smartphones	56	41	73
Lithium-ion batteries	22	16	70
Laptops	49	32	66
Plastic products	10	4	38
Wireless headphones	56	8	14
Computer parts	51	4	9
Medicine	85	6	7

Source: US International Trade Commission, Bloomberg

**More tariff rollbacks likely.** Trump has signaled to 'substantially reduce' tariffs on China from the current 145%. It's possible that the US will exempt further products where it has a high reliance on China, such as lithium-ion batteries, imports of which totalled USD 17bn in 2024, with China accounting for 70% of those US imports.

Moreover, the US is highly reliant on China for rare earths, which are essential in the production of an array of products ranging from military drones to electric cars and consumer electronics. China controls ~80% of global rare earth processing capacity and has recently tightened export restrictions on medium to heavy rare earths in retaliation to the US tariffs. Approximately 70% of all US rare earth imports came from China between 2020 and 2023 according to a US Geological report, with no domestic processing of heavy rare earths like dysprosium.

**China's stance on trade talks.** The exemptions thus far are encouraging, but remain prohibitively high, with ~60% of Chinese exports to the US still subject to a 145% tariff hike. China appears to be in no hurry to enter into trade talks with the US. Beijing's stance is clear: "if there is a fight, we are ready; if there is an opportunity to talk, we are open". In our view, this implies Beijing will wait for the US to offer further concessions. China has officially denied formal negotiations with the US thus far.

Negotiations are also impacted by trade dependencies. The US depends heavily on electronic imports from China—likely why the US has exempted or reduced tariffs on many of these products to date. In contrast, it seems easier for China to diversify its imports from the US—aircraft and agricultural products being two examples where China may incrementally increase its purchase of European aircraft and source greater quantities of soybeans from Brazil and Argentina. China is also reported to be mulling an exemption list worth around USD 46bn, or 28% of China's

imports from the US including aircraft, semiconductor, and pharmaceutical products.

In our view, we think the US reciprocal tariffs will need to fall to sub-34%, at a minimum, before China enters talks.

China imports from the US (2024 value)

Product	China imports from US (USD bn)	Share of China total imports (%)	US share in China total imports (%)
Liquefied propane	11.2	7%	60%
Aircraft	6.2	4%	50%
Soybean	12.0	7%	23%
Optics and measurement	12.8	8%	17%
Auto	9.0	6%	14%
Pharmaceutical	5.6	3%	13%
Chemical	15.0	9%	11%
Plastic and rubber	8.7	5%	11%
Semis manufacturing equipment	3.2	2%	10%
Agriculture and food	12.8	8%	9%
Machinery	16.6	10%	9%
LNG	2.4	1%	6%
Metal products	7.1	4%	5%
Others	10.4	6%	4%
Electronics	6.4	4%	3%
ICs	11.7	7%	3%
Crude oil	6.0	4%	2%
Other mineral products	6.3	4%	2%
Total	163.4	100%	6%

Source: China Customs, CEIC, UBS

## Appendix

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