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China Economics | Asia Pacific

US-China to Start Trade Talks; We Expect Gradual Tariff De-escalation

China confirmed that Vice Premier He Lifeng will meet with US Treasury Secretary Scott Bessent during his visit to Switzerland on May 9-12. A spokesman in Beijing said this is in response to senior US officials' recent talks about potential adjustment to tariff policies. This would mark the first high-level US-China official talks since US tariff escalations this year.

This echoes our [baseline assumption](#) that the US and China would initiate trade talks soon and start to remove the tit-for-tat tariffs gradually, given that the prevailing tariff rates are evidently too prohibitive for bilateral trade. That said, we believe US effective tariffs on China will only be lowered from prohibitive levels (currently 107%) to elevated levels, with a terminal rate of 4.5% by year-end (vs 11% prior to 2025 plus reciprocal tariffs with exemptions). A durable resolution remains elusive, in our view, given the wide scope of issues in the bilateral relationship.

Given the above, and Beijing's still reactive stimulus approach, we maintain our view that China's real GDP will slip from 5.4%Y in 4Q24-1Q25 to 3.7%Y in 4Q25. The peak of tariff pain will be felt in 2Q, with a full percentage point dip in GDP YoY, to <4.5%Y.

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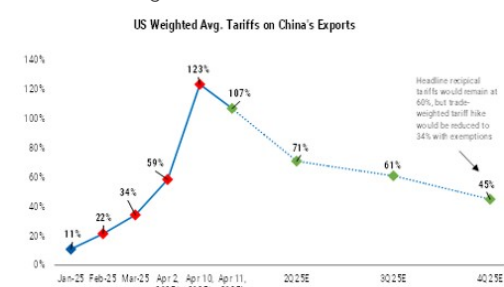
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Exhibit 1 : We expect a phased reduction in US trade-weighted tariffs on China



Source: White House, UN Comtrade, Morgan Stanley Research estimates.

*Tariffs on April 2 and April 10 consider reciprocal tariff exemptions on products like steel & aluminum, auto, copper, pharmaceuticals, semiconductors, lumber articles, certain critical minerals, and energy. Within these, steel, aluminum, and auto are already subject to Feb-Mar sectoral tariff hikes previously. *Tariff on April 11 further considered exemptions on consumer electronics (40% of these have been exempted on April 2).

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