

China Economy

Impact of US tariffs should be limited

US President Joe Biden on Tuesday unveiled steep tariff hikes on an array of Chinese imports. The tariffs are mostly symbolic with more political than economic impact in an election-year as both candidates are competing to be the tougher guy on China. The tariffs have very limited impact on US consumer inflation as the imports of related products from China were only 0.07% of the US GDP in 2023 and the US inflation was mainly driven by prices in the non-tradable sector. The tariffs may sharply reduce China's exports of related products to the US, but their impact on China's exports and economic growth should be quite slight, in our view. Those exports to the US only accounted for 0.5% of China's total exports and 0.1% of its nominal GDP in 2023. The tariffs will deteriorate the China-US relationship. China may retaliate with some symbolic moves instead of strong actions as the Chinese policymakers try hard to restore foreign business confidence and seek to avoid actions that could make China the centre of the US presidential campaign. The tariffs may have a mild negative impact on the RMB and Chinese stocks by signalling a possible escalation of China-US tensions.

- **The tariffs may sharply reduce China's exports of related products to the US.** The new measures affect US\$18bn in Chinese imported goods including steel and aluminium, semiconductors, electric vehicles, batteries, critical minerals, solar cells, ship-to-shore cranes and medical products. The changes are staggered to take effect from 2024 to 2026 and are more targeted than the 60% flat tariff Trump has proposed. The US Trade Representative's Office said it anticipates the effective date for this year will be in approximately 90 days. The biggest jump is for EVs, with the tariff rate quadrupling, while other imports are seeing levies doubled or being imposed for the first time.
- **The tariffs are mostly symbolic in an election-year.** Joe Biden has to compete with Donald Trump to be the tougher guy on China as a hawkish approach to trade with China seems popular with US voters. Trump pledged a 60% across-the-board tariff on Chinese goods and a 200% tariff on Chinese vehicles made in Mexico if elected. By raising tariffs on some goods from China, Biden tries to show his determination to bolster domestic manufacturing industries and protect blue-collar workers' interest. Domestic calculations are at play for the tariffs as National Economic Advisor Brainard said Biden's tariffs would help communities in Michigan and Pennsylvania. The two swing states are crucial to the 2024 election outcome.
- **The impact on US consumer inflation should be limited.** The imports of those products from China were only 0.07% of the US GDP in 2023. Moreover, the inflation in the US has been mainly driven by service prices like housing rents.
- **The impact on China's exports and economy may be very slight.** Related exports to the US only accounted for 0.5% of China's total exports and 0.1% of its nominal GDP in 2023. China's exports of certain medical products and steel & aluminum may see a negative impact as the US market accounts for 10%-20% of exports of those products. But we estimate the impact on the exports of other products should be quite small. The tariffs can hardly erode China's competitiveness in the supply chain of related products. China has controlled 80%-90% of the global solar supply chain and over 80% of certain segments of the EV battery supply chain; the cost of making a panel in China is 60% cheaper than in the US. In 2023, outbound shipments of completed solar panels to the US reached US\$13.15mn, only 0.03% of China's solar panel exports. China is expected to account for almost half of all new capacity coming online to manufacture certain legacy semiconductor

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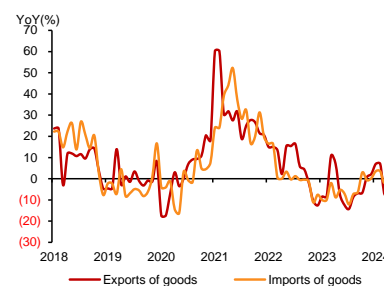
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Source: Wind, CMBIGM

wafers. We believe domestic capacity expansion, deflation pressure and cross-border price differentials will definitely stimulate China's exports in the next several years.

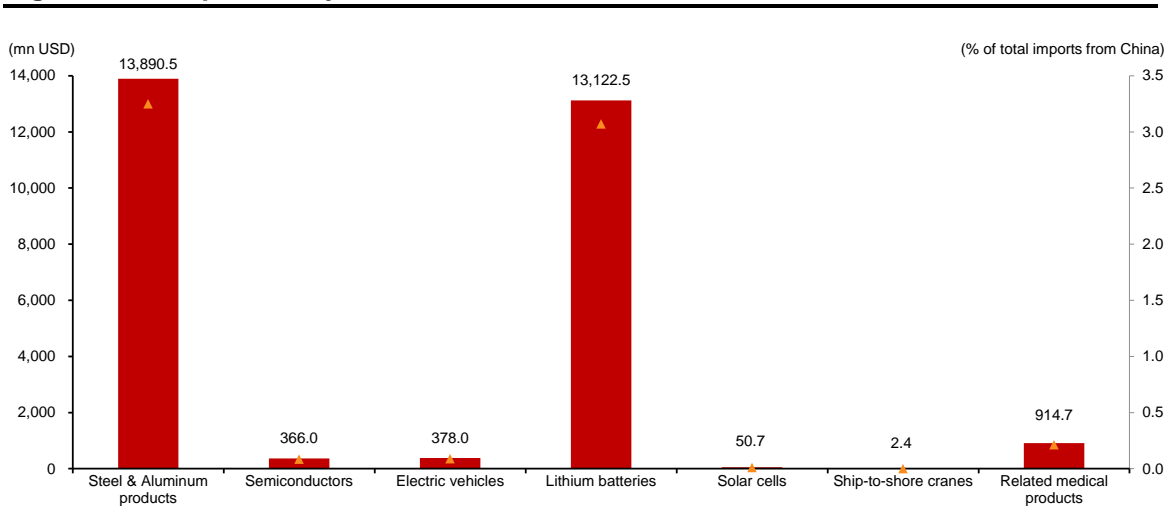
- **The tariffs will deteriorate the China-US relationship.** China's Ministry of Commerce said Tuesday the tariff increase is being driven by US political considerations and it would take resolute measures to defend China's interests. China may retaliate with some symbolic moves instead of strong actions as the Chinese policymakers try hard to restore foreign business confidence and seek to avoid actions that could make China the centre of the US presidential campaign.
- **The tariffs may have mild negative impact on RMB exchange rates and Chinese stocks.** Signaling a possible escalation of China-US tensions in the election-year, the tariffs may have some negative influence on investor sentiment in China's forex and stock markets. But the market may have already priced in part of the story in the election-year. Therefore, the influence should be mild, in our view.

Figure 1: Biden's Tariffs on China by Sector

	Tariff rate before the hike	Tariff rate after the hike	Effective
Certain steel & aluminum products	0-7.5%	25%	in 2024
Semiconductors	25%	50%	by 2025
Electric vehicles	25%	100%	in 2024
Lithium-ion EV batteries	7.5%	25%	in 2024
Lithium-ion non-EV batteries	7.5%	25%	in 2026
Battery parts	7.5%	25%	in 2024
Natural graphite & permanent magnets	0%	25%	in 2026
Certain critical minerals	0%	25%	in 2024
Solar cells	25.0%	50%	in 2024
Ship-to-shore cranes	0%	25%	in 2024
Syringes & needles	0%	50%	in 2024
Personal protective equipment like respirators & face masks	0-7.5%	25%	in 2024
Rubber medical & surgical gloves	7.5%	25%	in 2026

Source: The White House, CMBIGM

Figure 2: US Imports Subject to Tariffs from China in 2023



Source: The US Census Bureau, CMBIGM

Figure 3: China Exports by Destination

	YoY Growth (%)							Share (%)						
	2018	2019	2020	2021	2022	2023	4M24	2018	2019	2020	2021	2022	2023	4M24
World	9.9	0.5	3.6	29.6	5.6	(4.7)	1.5	100	100	100	100	100	100	100
US	11.3	(12.5)	7.9	27.5	1.2	(13.1)	(2.8)	19.2	16.8	17.4	17.2	16.4	14.8	13.8
EU	9.8	4.9	6.7	32.6	8.6	(10.2)	(3.6)	16.4	17.2	15.1	15.4	15.9	14.8	14.6
Japan	7.2	(2.6)	(0.4)	16.3	4.4	(8.4)	(10.9)	5.9	5.7	5.5	4.9	4.9	4.7	4.5
ASEAN	14.2	12.7	6.7	26.1	17.7	(5.0)	8.1	12.8	14.4	14.8	14.4	16.0	15.5	16.9
India	12.7	(2.4)	(10.8)	46.2	21.7	0.8	(6.2)	3.1	3.0	2.6	2.9	3.3	3.5	3.4
Africa	10.8	7.9	0.9	29.9	11.2	7.5	(16.0)	4.2	4.5	4.4	4.4	4.6	5.1	5.1
Latin America	13.7	2.1	(0.8)	52.0	10.6	(2.4)	2.2	6.0	6.1	5.8	6.8	7.1	7.3	7.4
Russia	12.0	3.7	1.7	33.8	12.8	46.9	(13.6)	1.9	2.0	2.0	2.0	2.1	3.3	3.0
Australia	14.2	1.8	10.9	24.2	19.0	(5.3)	(6.2)	1.9	1.9	2.1	2.0	2.2	2.2	2.1
UK	(0.3)	10.4	16.3	19.9	(6.1)	(3.4)	5.3	2.3	2.5	2.8	2.6	2.3	2.3	2.2
Canada	12.1	5.0	14.0	22.4	4.5	(14.9)	(4.4)	1.4	1.5	1.6	1.5	1.5	1.3	1.3
South Korea	5.9	2.1	1.4	32.4	9.5	(7.2)	(6.1)	4.4	4.4	4.3	4.4	4.6	4.4	4.3
Saudi Arabia	(5.1)	36.9	17.7	7.9	25.7	14.5	-	0.7	1.0	1.1	0.9	1.1	1.3	1.1
HK China	8.2	(7.6)	(2.3)	28.6	(15.0)	(6.3)	8.9	12.1	11.2	10.5	10.4	8.4	8.1	8.2
Chinese Taipei	10.6	13.2	9.1	30.4	4.2	(16.0)	4.0	2.0	2.2	2.3	2.3	2.3	2.0	2.1

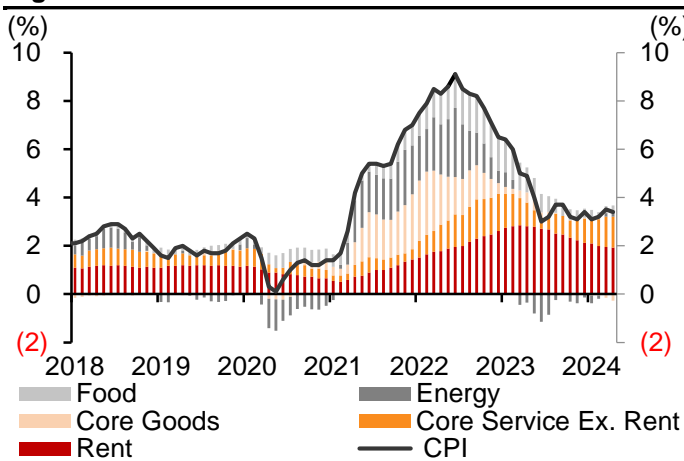
Source: Wind, CMBIGM

Figure 4: China Exports by Products

	YoY(%)							Share (%)						
	2018	2019	2020	2021	2022	2023	4M24	2018	2019	2020	2021	2022	2023	4M24
Textile Yarn & Related Products	8.1	0.9	29.2	(5.6)	2.0	(8.3)	1.2	4.8	4.8	5.9	4.3	4.2	4.0	4.0
Travel Goods & Bags	1.8	0.5	(24.2)	35.1	28.2	3.9	1.6	1.1	1.1	0.8	0.8	1.0	1.1	1.0
Garment & Accessories	0.3	(4.0)	(6.4)	24.0	3.2	(7.8)	0.0	6.3	6.1	5.3	5.1	4.9	4.7	4.1
Toy	4.5	24.2	7.5	37.7	5.6	(12.2)	1.0	1.0	1.2	1.3	1.4	1.4	1.2	1.1
Furniture & Parts Thereof	7.6	0.8	11.8	26.4	(5.3)	(5.2)	16.5	2.2	2.2	2.3	2.2	2.0	1.9	2.2
Lamps, Lighting Fixtures & Similar Products	5.6	9.6	14.3	31.2	(6.1)	(4.6)	5.5	1.2	1.3	1.5	1.5	1.3	1.2	1.2
Plastic Products	12.2	11.2	19.6	29.1	9.3	(3.9)	8.1	1.7	1.9	3.3	2.9	3.0	3.0	3.1
Steel Products	11.2	(11.3)	(15.4)	80.2	18.7	(8.3)	(13.4)	2.4	2.2	1.8	2.4	2.7	2.5	2.5
Unwrought Aluminum	25.8	(7.4)	(14.1)	48.7	33.7	(26.1)	0.6	0.7	0.6	0.5	0.6	0.7	0.6	0.6
Integrated Circuits	26.6	20.0	14.8	32.0	0.3	(10.1)	19.1	3.4	4.1	4.5	4.6	4.3	4.0	4.5
Ship	4.6	(6.3)	(15.3)	26.2	(0.4)	28.6	101.4	0.9	0.8	0.7	0.6	0.6	0.8	1.3
Motor Vehicles	12.3	4.1	(3.6)	119.2	74.7	69.0	21.2	0.6	0.6	0.6	1.0	1.7	3.0	3.3
Auto Parts & Accessories	10.8	(3.6)	(6.2)	33.7	7.4	9.0	5.8	2.2	2.1	2.2	2.3	2.3	2.6	2.7
General Equipment				7.5	26.4	6.1	1.8	11.3			1.6	1.6	1.7	1.9
Automatic Data Processing Equipment				11.6	21.0	(7.5)	(20.4)	5.9			8.1	7.6	6.7	5.5
Fertilizer	16.2	2.7	(8.3)	73.2	(1.6)	(13.9)	(40.2)	0.3	0.3	0.3	0.3	0.3	0.3	0.1
Ceramic products	11.7	16.5	0.0	22.3	6.4	(15.4)	(5.4)	0.9	1.0	1.0	0.9	0.9	0.8	0.7
Rare earth	23.7	(14.4)	(21.9)	90.0	62.8	(28.3)	(44.6)	0.02	0.02	0.01	0.02	0.03	0.02	0.02
Cellphone				0.9	16.6	(2.5)	(2.7)	(8.5)			4.8	4.4	4.0	4.1
Home appliance				23.5	22.3	(13.3)	3.8	12.6			2.6	2.9	2.4	2.6
Medical equipment	13.3	13.3	40.5	11.9	(5.8)	(2.9)	2.5	0.5	0.5	0.7	0.6	0.5	0.5	0.5

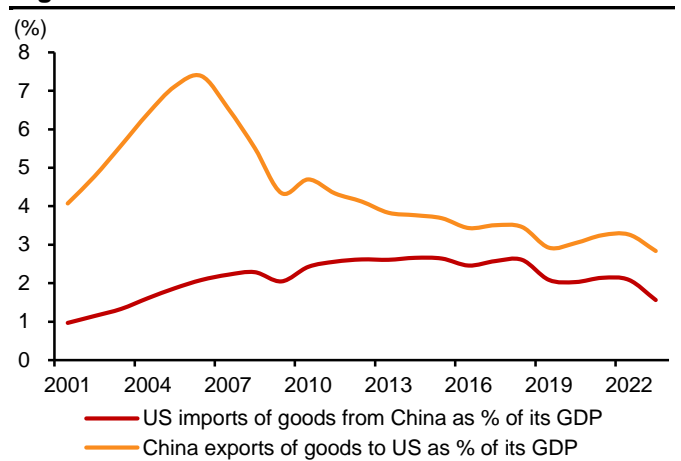
Source: Wind, CMBIGM

Figure 5: US CPI



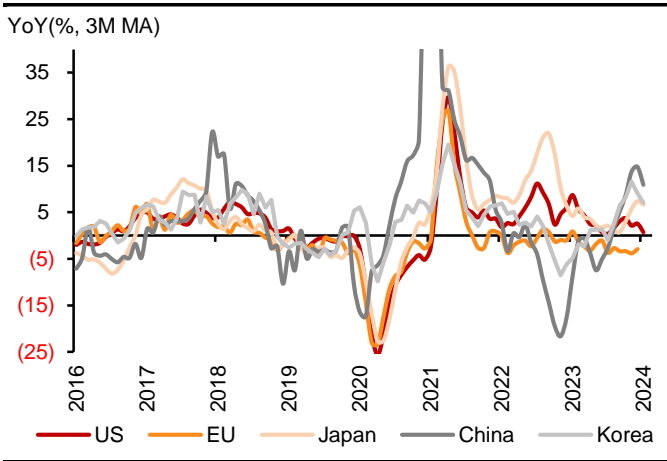
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Figure 6: China-US Trade as % of its GDP



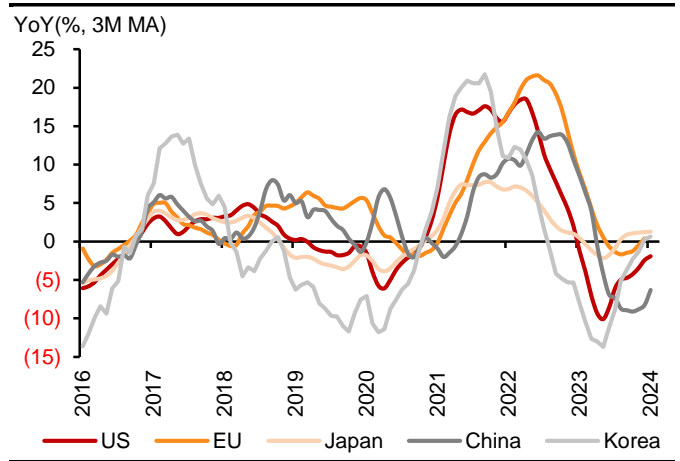
Source: Wind, CMBIGM

Figure 7: Export Volume Growth in Major Economies



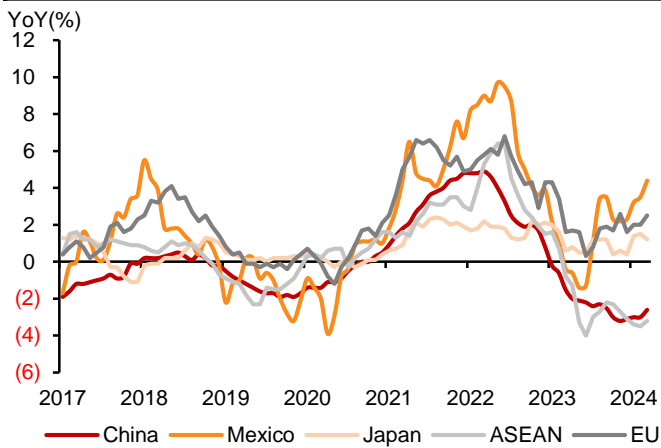
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Figure 8: Export Price Growth in Major Economies



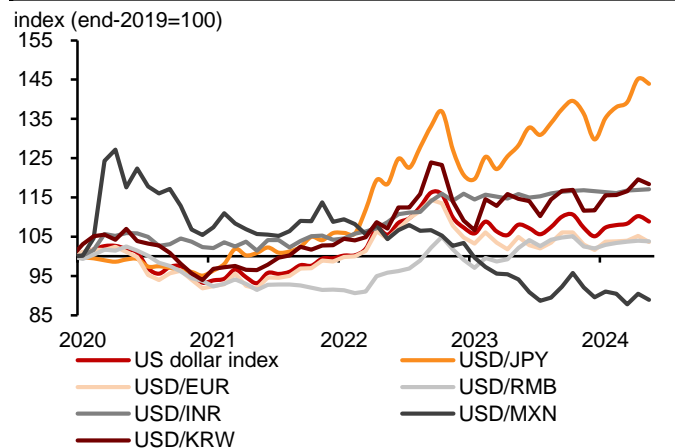
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Figure 9: US Import Price Growth by Source



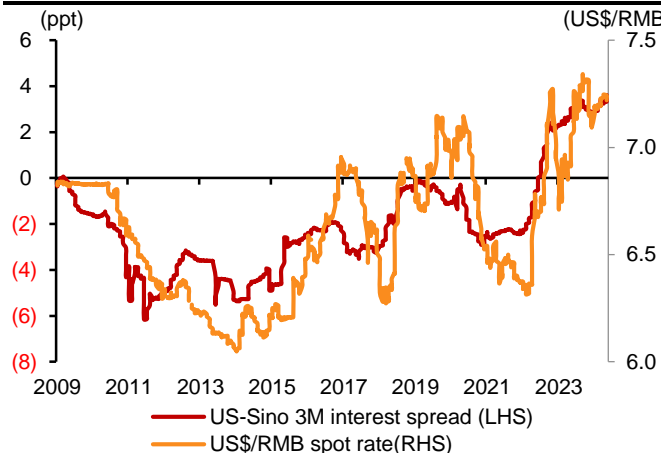
Source: Wind, CMBIGM

Figure 10: Exchange Rates



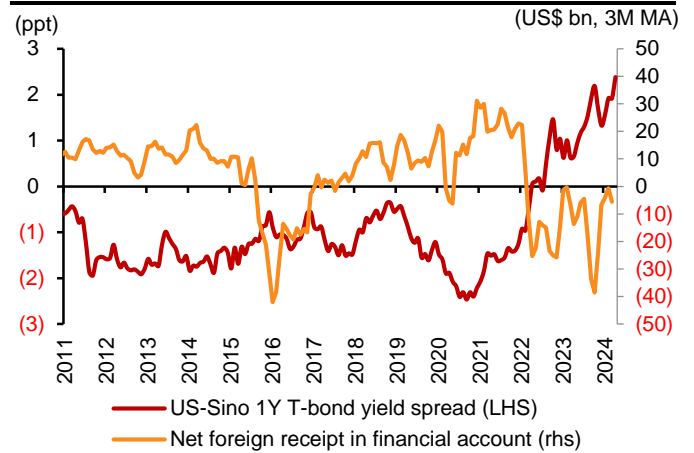
Source: Wind, CMBIGM

Figure 11: US-China Interest Spreads



Source: Wind, CMBIGM

Figure 12: Net Foreign Receipt



Source: Wind, CMBIGM

Figure 13: US Companies with the Highest Exposure to China

Company	Sector	Net sales in mainland China as a percentage of total revenue
Corning (GLW.N)	Electronic Equipment & Parts	33%
Albemarle Corp (ALB.N)	Specialty Chemicals	30%
Intel (INTC.O)	Semiconductors	27%
Applied Materials (AMAT.O)	Semiconductor Equipment & Testing	27%
Lam Research Corp (LRCX.O)	Semiconductor Equipment & Testing	26%
Amphenol Corp (APH.N)	Electronic Equipment & Parts	23%
Tesla Inc (TSLA.O)	Auto & Truck Manufacturers	22%
Borgwarner Inc (BWA.N)	Auto, Truck & Motorcycle Parts	21%
Microchip Technologies (MCHP.O)	Semiconductors	21%
Texas Instruments Inc (TXN.O)	Semiconductors	19%
Apple Inc (AAPL.O)	Phones & Handheld Devices	19%
Mettler-Toledo International Inc (MTD.N)	Medical Equipment, Supplies & Distribution	19%
Keysight Technologies Inc (KEYS.N)	Electronic Equipment & Parts	18%
Dupont De Nemours Inc (DD.N)	Diversified Chemicals	18%

Source: Wind, CMBIGM

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