China Economic Perspectives

Limited macro impact from the shift to Section 301 tariffs

Economics

China

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Section 122 tariffs replaced by Section 301 tariffs

The US announced final actions in its Section 301 (S301) investigation into countries' forced labor practice, effective July 24. These S301 tariffs replace the temporary S122 tariffs that expired on the same day. Under the new S301 framework, China will face an additional 12.5% tariffs, with exemptions for selected products. Products already covered by S232 tariffs—including steel, aluminum, autos and parts, wood, and selected semiconductor products—are also exempt. The move was widely anticipated, as S122 had a defined sunset date, and US officials had already signalled the likely shift in earlier interviews. Compared with S122, S301 provides a more durable legal basis, with no statutory time limit; in our view, the change is therefore more about legal footing and tariff architecture than a meaningful new tariff shock. See here for UBS US team's read though.

Limited near-term economic impact

Before the announcement, China faced a weighted-average US tariff rate of around 26–27%, reflecting both legacy tariffs in place as of end-2024 and additional post-2025 measures. Following the latest tariff shift, we estimate China's weighted-average US tariff rate could rise by ~1ppt, depending on the scope limitation of the latest exemption list. China's exports to the US fell 20% in 2025 amid higher tariffs, reducing the US share of China's total exports to 10% in 1H26 from 19% in 2017. Against this lower exposure base, a ~1ppt increase in the average tariff rate would hurt China's headline export growth by only around 0.1ppt on an annualized basis, implying marginal effects on GDP growth and inflation. In other words, the near-term macro impact should be limited. That said, given the notable sequential slowdown in domestic activity in 2Q and recent equity market volatilities, we still expect the upcoming Politburo meeting to signal a more meaningful shift toward policy support.

Expect broadly stable US-China relations

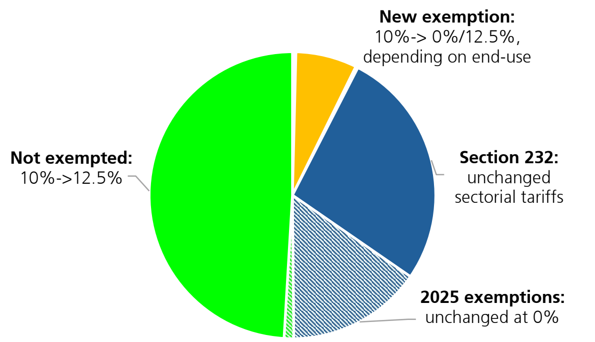
During President Trump's visit to China in May, the two sides agreed to pursue a "constructive and strategically stable" China–US relationship. This stability started from the presidential meeting at the APEC Summit in South Korea in late 2025. After the May visit, China stated the desire to maintain the broad stability "in the next 3 years and beyond" (effectively the rest of the current US presidential term). There has been a relative lack of major tensions which could change this. U.S. officials suggested that the two sides were working toward a "$30bn-for-$30bn" tariff rollback mechanism, while China's MOFCOM was reportedly seeking comments from domestic corporates and industry associations last week. As the latest tariff shift appears limited in macro impact and largely technical in nature, we do not expect a strong escalation response from China. The Ministry of Foreign Affairs reiterated that China opposes trade restrictions of any kind, but its comments contained little new signal of retaliation. We therefore expect US-China relations to remain broadly stable ahead of President Xi's scheduled visit to the US in September.

"Broad stability" doesn't mean a lack of tensions between the two countries. Another Section 301 investigation targeting structural excess capacity in manufacturing remains ongoing, and China is among the potential economies. But in recent times tariff has become much less important as an issue affecting bilateral relationship, compared to key issues such as trade restrictions on key technologies and goods. See next page for sector implication and charts.

Sector implications

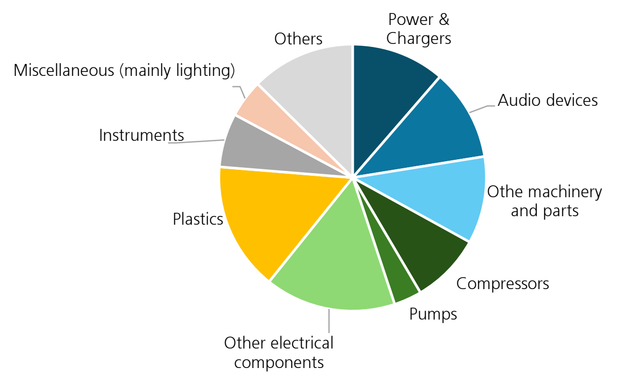
While S122 tariffs applied broadly, the shift to S301 allows the US to differentiate tariff treatment across industries. The S301 exemption list largely overlaps with the 2025 exemption list (Annex II and CBP exemptions), leaving tariff treatment for most products unchanged. Newly exempted items—and therefore benefiting from the removal of the 10% S122 tariff—include selected plastics, electrical components and machinery parts, many of which are exempt only when used in aircraft or pharmaceutical manufacturing.By contrast, some consumer goods, such as tricycles, toys and games, textiles, tableware and footwear, may face a modest tariff increase. We do not expect the latest tariff adjustment to materially alter corporate supply-chain relocation decisions, as these shifts began years ago and much of the relocation has already taken place. Firms are also likely to weigh broader considerations, including policy uncertainty, infrastructure, industrial clusters, labour costs and skills, and property-rights protection. See more in our CFO survey.

Figure 1: Changes to China's weighted average US tariff rates is likely very small on an aggregate level



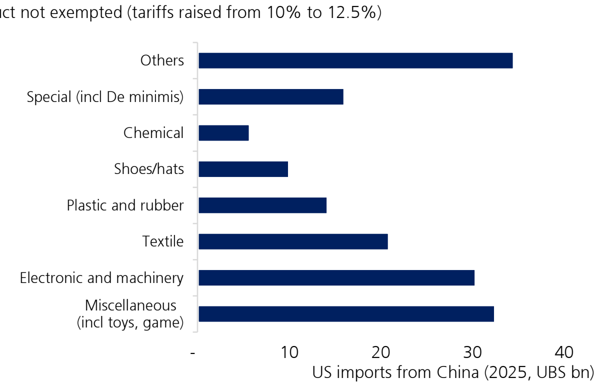
Source: USTR, USITC, UBS estimates. Note: Only major categories are labeled. exemption eligibility for some products depends on end use (e.g., pharma or aircraft) and scope restrictions.

Figure 2: Major products facing tariff reduction



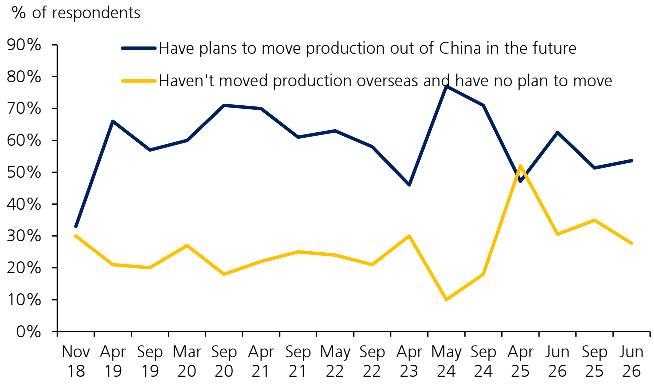
Source: USTR, USITC, UBS estimates. Note: exemption eligibility for some products depends on end use (e.g., pharma or aircraft) and scope restrictions.

Figure 3: Major products facing a modest tariff hike



Source: USTR, USITC, UBS estimates

Figure 4: The peak of supply chain shift intention was in 2020-21 and 2024



Source: UBS Evidence Lab

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