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Section 301 tariffs: Revenue > deals > facts; more volatility ahead

The US government's proposed Section 301 tariffs on 60 nations based on forced labor findings (effective post public hearings) are timed to replace the 10% Section 122 tariffs that expire 24-July, i.e., retain revenues. Differentiation is being attempted: 14 aligned nations get a 10% rate (others 12.5%), Section 232 metals tariffs have been tweaked to enable partner-specific rates, and the still ongoing excess-capacity probe against 16 partners can be used for leverage in bilateral deals. However, the risks of legal challenges are intact: concluding investigations on 60 countries in four months means significant scope for procedural lapses. Trade-policy uncertainty is likely to continue, though with lower differentiation attempted, it is a smaller risk for market volatility than last year.

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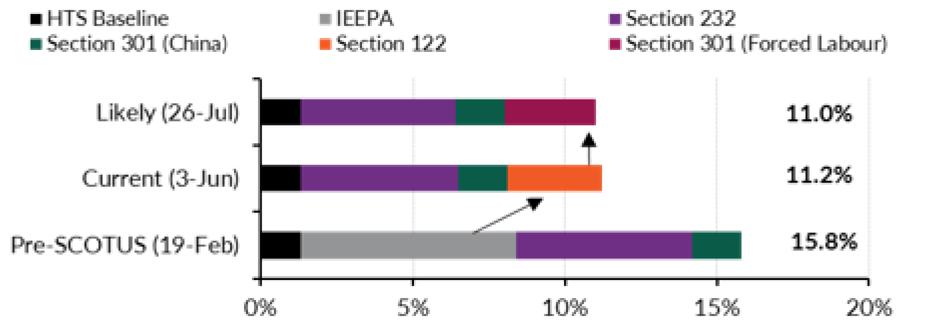
Trade
Trade War

Exhibit 1: Forced labour tariffs set to replace Sec. 122 tariffs; effective rate 11%



Source: Global Trade Alert; Axis Bank Research

Section 301 (labour) tariffs on 60 countries meant to preserve tariff revenues

The US Trade Representative (USTR) had two ongoing probes under Section 301 tariff authority i.e. (i) forced labour; (ii) excess capacity. Under the first, it has recommended 10/12.5% tariffs on 60 countries. As we anticipated (link), these tariffs are set to be effective just in time to replace the existing 10% baseline tariffs under Section 122, expiring on 24-July. A wide net (99% of US trade) and a hurried timeline confirm that the intent is revenue continuity (Fig 1). Tariff-exempt electronics, agri products, goods under USMCA and Section 232 tariffs (metals, pharma) and apparel/textiles under CAFTA-DR are out of scope (Fig 3).

Aligned partners got a 2.5pp preference (carrot); tariffs could still go up (stick)

All 60 countries under investigation were found to be deficient, but 14 (Canada, Mexico, EU, UK, Taiwan, Malaysia, Indonesia, Cambodia, Bangladesh, Pakistan, Argentina, Ecuador, El Salvador and Guatemala) received a 2.5pp tariff preference, i.e. 10% rate. This appears to be based on their closer alignment with the US administration on trade deals/geopolitics. Metals tariffs (Sec. 232) were also tweaked recently allowing country-specific concessions (link), confirming this bias. While it signals the US trying to use carrots to rebuild leverage with trading partners, the gap by itself is not meaningfully dis/advantageous (Fig 2). Add-on tariffs under the (still ongoing) second excess capacity probe targets 16 countries (all major trading partners ex-UK; including India) could be the 'stick' in trade negotiations.

Legal challenges are likely; trade and tariff uncertainty to rise once again

During the 2017 Section 301 probe on China, launch to public hearing took ~2 months; and findings took another 5 months (Fig 5). In this instance, public hearings for 60 countries are happening in less than 4 months from the date of initiation, with indicative tariffs already announced. While more durable than IEEPA authority, Section 301 tariffs could still be legally challenged on procedural lapses given a crunched timeline, especially because: (i) Section 122 tariffs have also been legally challenged (link); (ii) with the blanket use of these tariffs, the constitutional question on 'delegated authority' will resurface. Even as markets await certainty around the US-Iran war, trade/tariffs linked volatility could rise once again.

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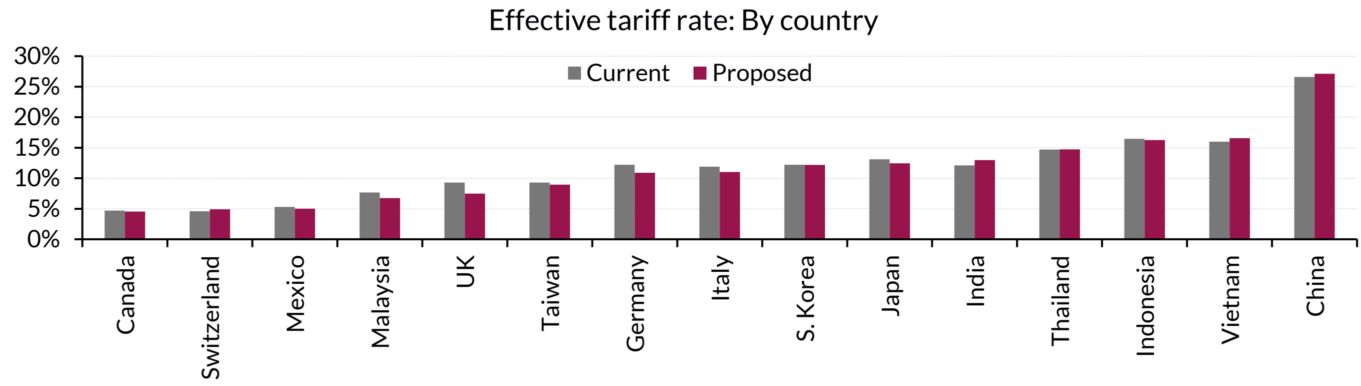
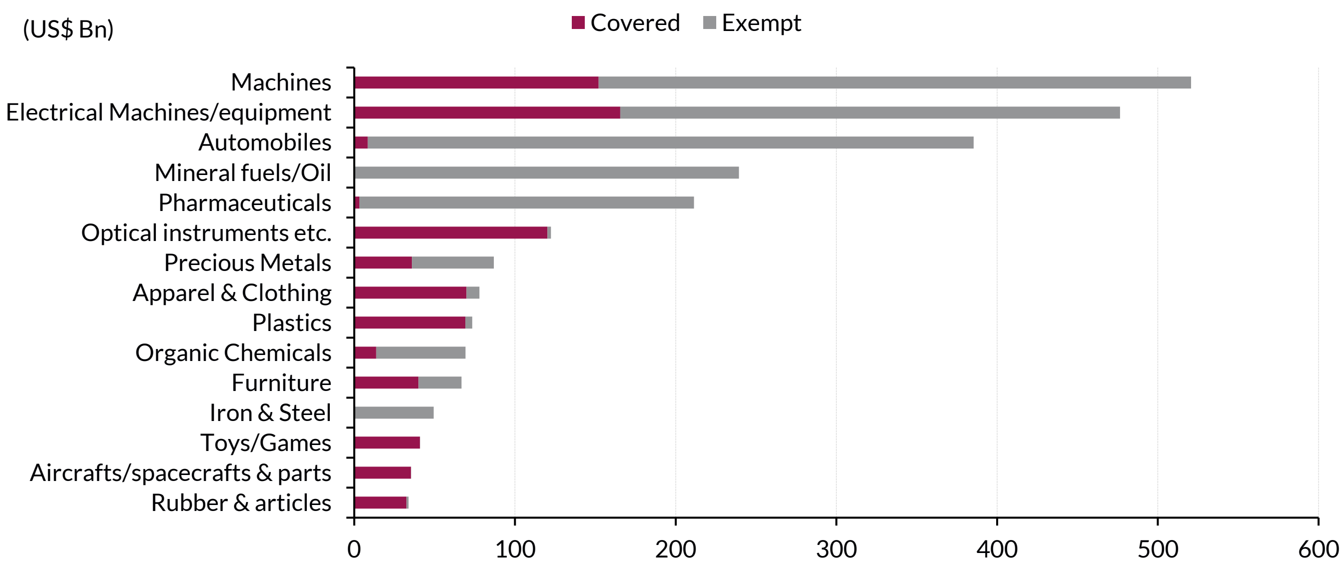
Exhibit 2: Proposed tariffs do not benefit/hurt countries in relative terms



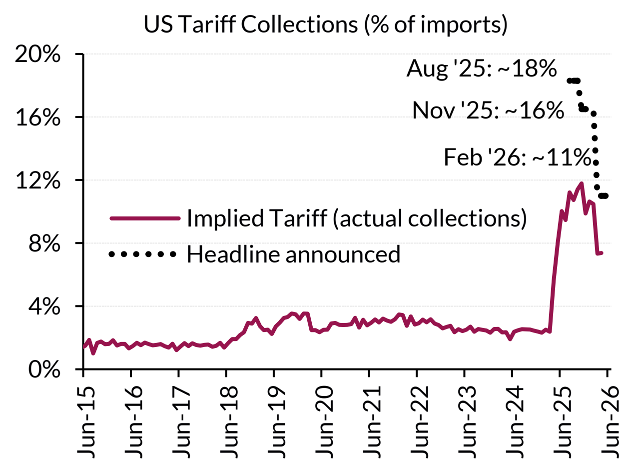
Source: Global Trade Alert; Axis Bank Research

Exhibit 3: Most current exemptions stand; little change in sectoral tariff burden



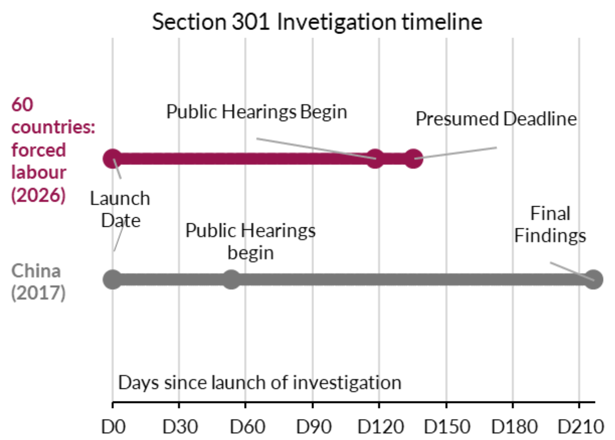
Source: Global Trade Alert; Axis Bank Research

Exhibit 4: Implied tariff rate based on April collections is 7.4% vs. an effective (headline) rate of 11.1%



Source: CEIC; Axis Bank Research

Exhibit 5: For 60 countries, the investigation timeline has been extremely crunched



Source: Axis Bank Research

Exhibit 6: Legal authorities to apply tariffs (ex-IEEPA)

Legal Authority	Precedent/legal standing	Limitation	Rationale
Section 301, Trade Act (1974)	Currently in use against China since 2018	USTR investigation (typically 12-18 months)	Retaliation against unfair trade practices (country-specific). Can be staggered for products.
Section 232, Trade Expansion Act (1962)	Currently in use for steel and automobiles	US BIS investigation (~9 months)	National security (country-sector/product specific)
Section 201, Trade Act (1974)	Currently in use for sonal panels	US ITC investigation (~6 months)	Material injury to a specific industry (Country-sector specific)
Section 122, Trade Act (1974)	Unused	Up to 15% for 150 days; can be applied immediately w/o investigation	Addressing Balance of Payments issues
Section 338, Trade Act (1930)	Used sparingly after enactment, though not for tariffs	Up to 50%; can be applied immediately w/o investigation	Discrimination by foreign government against US commerce (country-specific)

Source: Axis Bank Research