



China-US Trade Disputes (IV)

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Global Sourcing

3 April 2018

China hits back with tariffs on US\$3 billion of US imports

China's State Council released on Sunday (1 April) a list of 128 US goods that would be subject to 15% to 25% retaliatory tariffs effective from 2 April.

The move came after the US levied tariffs on Chinese steel and aluminum and planned to impose tariffs on US\$48 billion of other Chinese goods over China's alleged unfair trade practices and intellectual property theft.

US products subject to tariffs

The detailed product list matches the 'list of possible tariffs on US goods' published by the Chinese government earlier on 23 March.

Starting from 2 April, a 15% tariff would be imposed on a total of 120 US products involving US\$977 million (2017 figures) of US exports to China, including fresh fruits, dried fruits and nut products, wines, modified ethanol, American ginseng, and seamless steel pipes; while a 25% tariff would be imposed on eight US products involving US\$1.992 billion of US exports to China, including pork and its products, and recycled aluminum, according to a statement released by the State Council.¹

¹ http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201804/t20180401_2857769.html

China's stance

1. China decided to levy tariffs on the 128 US goods because the US did not respond to China's request for negotiations on a trade compensation agreement regarding the US's tariffs on Chinese steel and aluminum, the Ministry of Commerce (MOFCOM) said in a statement Monday.

China's imposition of tariffs 'is a legitimate action adopted under WTO rules to safeguard China's interests,' the MOFCOM said. It also added that China and the US should resolve issues through negotiation and dialogue. 'As the world's two largest economies, cooperation is the only correct option,' the MOFCOM said.

2. State-controlled *Global Times* said that China's tariff list indicates that China will never compromise and will always retaliate against unreasonable tariffs.

It also stated that 'China is not expecting added damage to US relations, but China does have the confidence and courage to handle whatever comes.'

US's responses

1. In response to China's move, the US government said that China's subsidies and overcapacity are the root causes of the US's action on steel and aluminum. 'Instead of targeting fairly traded US exports, China needs to stop its unfair trading practices which are harming US national security and distorting global markets,' a White House spokesperson said in a statement.
2. Peter Navarro, director of the White House National Trade Council, said on Monday that he did not see a tit-for-tat escalation of trade tensions between the US and China. When asked whether there would be a US action to China's new tariffs, Navarro said he did not expect an 'action, response, action, response' situation. 'That's not what this should be about. That just leads to escalation spirals,' said Navarro.

Our take

1. China's imposition of tariffs on US\$3 billion of US imports is just a drop in the ocean given the size of bilateral trade between the two countries. The import value of the affected US goods makes up only 2.3% of the total value of US goods exported to China, which amounted to US\$130.4 billion in 2017. Moreover, China's tariffs do not cover some of the US's largest exports to China, such as soybeans and aircrafts.

Therefore, we regard China's retaliation as very measured, with no intention to escalate bilateral trade tensions. It is just a warning shot to the US administration, rather than a signal to start an all-out trade war.

2. China said the tariffs are a countermeasure to a previous US move to raise tariffs on Chinese steel and aluminum imports, not a retaliation against the proposed tariffs on US\$48 billion of Chinese goods, the detailed product list of which will be unveiled later this week.

In our view, China is saving stronger retaliatory measures, such as restrictions on soybeans, aircrafts and cars, as a response to that soon-to-be-announced product list, as well as a strong bargaining chip in ongoing trade negotiations with the US.

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