



# China-US Trade Disputes (III)

FUNG BUSINESS INTELLIGENCE

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Global Sourcing

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## Trump imposes tariffs on US\$48 billion of Chinese imports

*At 12:30 pm (US Eastern time) on Thursday (22 March), US President Donald Trump signed an executive memorandum to slap punitive tariffs on US\$48 billion of Chinese imports, and to take other measures targeted at China.*

*This action is taken after a 301 investigation into China's economic practices concludes that China has adopted unfair practices regarding US intellectual property and technology.*

*The move comes on the heels of the tariffs levied by the US on imported steel and aluminum that also took aim at China. In our view, there could be more troubles ahead for the China-US trade relations, particularly as Trump said, 'this is the first of many' trade actions the US would take against China. We will continue to closely monitor developments in this regard.*

### Proposed tariffs

The detailed product list of proposed tariffs has not been announced yet. According to a White House statement, the US Trade Representative Robert Lighthizer will publish a list of targeted products within 15 days, and then there will be a 30-day period for public consultation.

The available information so far:

Scale: A senior White House official said the proposed tariffs will cover 1,300 product lines that have a total annual trade value of around US\$48 billion. However, Donald Trump said the number will be US\$60 billion at a press conference.

Industries covered: According to a White House statement, sectors subject to **25% ad valorem duties** will include **aerospace, information communication technology, and machinery**. In the Senate Finance Committee before Trump's announcement, the US Trade Representative Robert Lighthizer also outlined the targeted Chinese products, including **aeronautics, modern rail, new-energy vehicles, and high-tech products**.

### Other measures aimed at China

Investment restrictions: Trump gave the Department of Treasury 60 days to develop investment restrictions aimed at preventing Chinese companies and capital from acquiring US companies with sensitive technologies.

Through the WTO mechanism: The US Trade Representative will also pursue dispute settlement in the World Trade Organization (WTO) to challenge China's 'discriminatory' technology licensing practices.

### China's responses

1. After the US's tariff announcement, the Chinese Embassy in the US warned that China would retaliate. 'China does not want a trade war with anyone. But China is not afraid of and will not recoil from a trade war,' the embassy said in a statement. 'If a trade war were initiated by the US, China would fight to the end to defend its own legitimate interests with all necessary measures.'
2. China's Ministry of Commerce (MOFCOM) proposed a list of 128 US products as potential retaliation targets for the US tariffs imposed on imported steel and aluminum products under Section 232, according to a statement on its website posted on 23 March.

A 15% tariff would be imposed on US wine, fresh fruit, dried fruit and nuts, steel pipes, modified ethanol, and ginseng, which together had an import value of \$3 billion in 2017;

while a 25% tariff could be imposed on US pork and recycled aluminium goods, according to the statement.

China will impose the tariffs on the 128 US goods in two stages if it cannot reach an agreement with the US, the MOFCOM said, adding that it could also take legal action under WTO rules.

### Our take

1. The tariffs on Chinese imports will be levied only after a 15-day drafting period and another 30-day consultation period ends without a resolution with China. These waiting periods will create space for negotiations for China to address the trade deficit issue and US's allegations on intellectual property theft.

The waiting periods will also give US businesses a chance to water down a proposed target list that covers 1,300 products.

2. We expect that China will take retaliatory actions against the US if the potential negotiations with the US fall apart, given that China has already proposed retaliatory tariffs regarding the US's tariffs on imported steel and aluminum products.

### Implications for sourcing businesses

1. Donald Trump's recent series of moves, including the tariffs on imported steel and aluminum products and this most recent one, has left the business world in a cloud of uncertainty, with mounting concerns over more upcoming protectionist measures and a looming trade war.
2. Under such circumstances, large players with a strong global network will be in a better position to meet the new challenges. In contrast, an 'all-in' sourcing strategy which is tightly-wound and single-market dependent will be unable to cope with the changes and uncertainties, and thus new sourcing strategies have to be devised. This is particularly true as production and supply chains now need to be even more flexible and diverse, in order to navigate and respond fast to the changing and unpredictable trade environment.

## FUNG BUSINESS INTELLIGENCE

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