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Trump threatens new tariffs on US$200 billion of Chinese goods in retaliation for China's revenge

On Monday (18 June) night, US President Donald Trump threatened to impose additional tariffs of 10% on US$200 billion of Chinese goods. This follows China's levy of retaliatory tariffs on US$50 billion of US imports after the US decided to move ahead with its plan to slap 25% additional tariffs on US$50 billion of Chinese imports last Friday.

In our view, the tit-for-tat import duties and tariff threats between China and the US have brought the two countries closer to an all-out trade war. We will continue to closely monitor developments in this regard.

US imposes tariffs on US$50 billion of Chinese products

On 15 June, the Office of the United States Trade Representative (USTR) released a list of products imported from China that will be subject to 25% additional tariffs as part of the US response to China's 'unfair' trade practices regarding the alleged forced transfer of US technology and intellectual property.[1]

The product list covers 1,102 tariff lines valued at US$50 billion in 2018 trade values. The list focuses on products from industrial sectors that 'contribute to or benefit from' *Made in China 2025* industrial policy, which include industries such as aerospace, information and

[1] https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/june/ustr-issues-tariffs-chinese-products

communications technology, robotics, industrial machinery, new materials, and automobiles. It does not include general consumer goods such as apparel, footwear, or mobile phones.

The products list consists of two sets of tariff lines. The first set (which can be found here) contains 818 lines of the original 1,333 lines included on the proposed list published on 6 April. It covers US$34 billion worth of Chinese imports, including machinery and mechanical appliances, electrical machinery and equipment, locomotives and vehicles, and a variety of instruments and apparatus. The 25% additional tariffs will take effect on 6 July.

It should be noted that there are significantly fewer tariff lines aimed at the apparel and footwear sector on this list compared with the preliminary list. For example, textile printing machinery, textile spinning machines, weaving machines, sewing machines, and machinery for making or repairing footwear have all been removed from the list.

The second set (which can be found here) contains 284 proposed tariff lines, covering US$16 billion worth of imports from China, including a variety of chemicals, plastics and resins, locomotives and other railway equipment, and machines for the manufacture of semi-conductors. These 284 tariff lines will undergo further public review till 31 July, after which the USTR will issue a final determination.

China retaliates with tariffs on US$50 billion of US goods

Just six hours after the US's announcement, the Chinese government announced on 16 June to impose retaliatory tariffs of 25% on 659 items of US imports worth a total of US$50 billion in 2017 trade values.[2]

Additional tariffs on US$34 billion of US products will start on 6 July, and be applied to agricultural products such as soybean, corn, wheat, cotton, rice, sorghum, beef, pork, poultry, dairy products, nuts and vegetables, aquatic products, as well as autos. This tariff list can be found here.

The implementation date of the tariffs on the remaining US$16 billion of US goods will be announced later. Among those items are crude oil, natural gas, coal, refined oil products, chemical products, and medical supplies. This tariff list can be found here.

[2] http://www.mofcom.gov.cn/article/ae/ai/201806/20180602756389.shtml

Although China's retaliation list is much longer than a preliminary list of 106 products released in April, the value of targeted goods remains unchanged at US$50 billion, as some high-value items such as commercial aircraft have been removed.

In addition, China said that all the previous agreements reached through recent trade talks will become invalid as a result of the US's move.

US threatens with new tariffs against China

In retaliation for China's decision to raise tariffs on US$50 billion of US goods, US President Donald Trump threatened on 18 June to impose 10% additional tariffs on US$200 billion of Chinese imports. Trump said that he had asked the USTR to identify the Chinese products to be subject to the new tariffs. These tariffs will go into effect 'if China refuses to change its practices, and also if it insists on going forward with the new tariffs that it has recently announced,' according to a statement issued by Trump. He also warned that the US will pursue additional tariffs on another US$200 billion of goods if China retaliates again.

In response, China's Ministry of Commerce (MOFCOM) criticized the latest US measures as 'extreme pressure and blackmail' in a statement on Tuesday (19 June). It also warned that China will respond with 'strong countermeasures'.[3]

Our take

With the recent flurry of tit-for-tat tariff levies and tariff threats between China and the US, the two countries are more likely than ever to engage in a full-fledged trade war.

While the tariff list of the US published on 15 June does not include apparel and footwear, given the amount (US$200 billion) of the Chinese imports targeted by the latest tariff threat (on 18 June) by Trump, it is highly likely that apparel and footwear will be hit with extra tariffs if the tariff threat becomes a reality.

Against this backdrop, sourcing companies must step up their search for new locations for production and sourcing aside from China. In fact, with or without the China-US trade disputes, sourcing companies need to stay alert to the long-term trend to diversify production and sourcing and be less dependent on any single source, such as China. To this end, it is essential to have

[3] http://www.mofcom.gov.cn/article/ae/ai/201806/20180602756563.shtml

reliable on-the-ground intelligence into where acceptable alternative sources of production are beginning to emerge in Asia and beyond, including sub-Saharan Africa, and where existing sources (ex-China) are upgrading, such as Bangladesh, Cambodia and Indonesia.

How Li & Fung can help

Li & Fung is the pioneer of supply chain in China and globally and is leading efforts to create the digital supply chain of the future. With unrivalled vendor networks and strong vendor relationships, we are at the front of the field in the race to secure additional or alternative production capacity.

Besides, we have long experience in helping customers adjust to changing political and economic conditions in Asia and globally, so as to buffer their supply chains and protect their sources. We also have 'feet on the ground' in new production areas of promise, where we are constantly monitoring key factors and new events that affect sourcing and production.

In addition, we have a research arm in Hong Kong – Fung Business Intelligence – to analyze the latest developments, making their insights available to key Li & Fung customers or even conducting specific research for some customers.

FUNG BUSINESS INTELLIGENCE

Fung Business Intelligence collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

The **Fung Group** is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs over 39,900 people across 40 economies worldwide, generating total revenue of over US$22.5 billion in 2016. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

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