



China-US Trade Disputes (XIII)

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US finalizes tariffs on US\$200 billion of Chinese imports

The US government announced on Monday (17 September) that it will levy 10% additional tariffs on US\$200 billion worth of Chinese imports starting from 24 September, further escalating the trade war between the world's two largest economies. We will continue to closely monitor developments in this regard.

The US tariffs on US\$200 billion of Chinese goods

The Office of the United States Trade Representative (USTR) released on 17 September a list of Chinese imports worth approximately US\$200 billion that will be subject to 10% additional tariffs starting from 24 September.¹ The tariff rate will rise to 25% on 1 January next year. The phase-in of tariffs will allow US companies more time to look for alternative supplies and reduce the impact on US consumers in the upcoming holiday shopping season, according to US government officials.

This second phase of additional tariffs follows the first phase of tariffs on US\$50 billion of Chinese goods imposed earlier, bringing the total amount of Chinese goods that face extra tariffs up to about US\$250 billion.

The finalized product list contains 5,745 of the original 6,031 tariff lines on a proposed list announced on 10 July, ranging from machinery, wood products and paper, minerals and metals, chemicals, transport equipment, to consumer goods, and agricultural products.

¹ <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/ustr-finalizes-tariffs-200>

Although some consumer goods including smart watches, Bluetooth devices, some textiles, and consumer safety products such as bicycle helmets, baby car seats and playpens have been removed, the new list still affects a wide range of consumer goods including apparel and clothing accessories made of leather, fur, plastic, and rubber, footwear, hats and headgear, handbags, travel goods, and furniture. The full tariff list can be found [here](#).

In a statement, US President Donald Trump warned that if China takes retaliatory action, the US will immediately pursue ‘tariffs on approximately US\$267 billion of additional imports’ which, combined with earlier rounds of tariffs, will cover virtually all of the Chinese imports into the US. Meanwhile, the US is also open to further trade talks with China. ‘Hopefully, this trade situation will be resolved, in the end, by myself and President Xi of China, for whom I have great respect and affection’, said Trump.

Selected tariff lines:

Category	Product	
<i>Apparel</i>	<ul style="list-style-type: none"> Articles of apparel & clothing accessories, of plastic, NESOI Articles of apparel and clothing accessories, excluding gloves, of vulcanized rubber other than hard rubber Articles of apparel, of reptile leather Articles of apparel, of leather or of composition leather, NESOI Clothing accessories NESOI, of reptile leather Clothing accessories of leather or of composition leather, NESOI Articles of apparel and clothing accessories, of furskins Articles of apparel and clothing accessories of paper pulp, paper, cellulose wadding or webs of cellulose fibers 	
<i>Footwear</i>	<ul style="list-style-type: none"> Footwear of crocidolite Footwear of asbestos other than crocidolite 	
<i>Other consumer goods</i>	<ul style="list-style-type: none"> Gloves Hats and headgear Carpets Handbags Suitcases Furniture Wood products 	<ul style="list-style-type: none"> Beauty products Toilet paper Air conditioners Television sets Refrigerators Tobacco products Car tires
<i>Others</i>	<ul style="list-style-type: none"> Fish and other seafood Vegetables and fruits Cotton, silk and wool Textile fabrics Machines for textile yarns, fabrics or made-up articles Sewing machines Parts & accessories of motor vehicles 	<ul style="list-style-type: none"> Automatic teller machines Semiconductor media Paper and paperboard Chemicals Iron and steel products Copper, nickel, aluminum, lead, zinc and tin Hooks, eyes and eyelets used for clothing, footwear and handbags

Trump signs Miscellaneous Tariff Bill Act

In addition, US President Donald Trump signed the *Miscellaneous Tariff Bill Act of 2018* (MTB) into law on 13 September. The MTB will reduce tariffs on 1,662 goods worth about US\$17 billion from all countries for three years, including a number of apparel, footwear, textiles, and travel goods.² It was estimated that the MTB will provide US\$350 million of tariff savings annually.

Although a lot of Chinese imports subject to the US's various rounds of additional tariffs are also on the MTB product list, the MTB does not void or reduce any of the additional tariffs as it simply cuts existing 'normal' tariff rates on the goods listed. Still, the MTB could reduce the impact of US tariffs on Chinese imports that are also on the MTB list on a net basis. For example, a Chinese product with a 5% 'normal' import duty that is on both the MTB list and the list for 10%/25% extra tariffs would be exempt from the 5% import duty but would still come under 10%/25% additional tariffs.

China's response

In response to the US move, China's Ministry of Commerce (MOFCOM) said in a statement on 18 September that China 'has no choice but to take countermeasures simultaneously to protect its own legitimate interests and the global free trade order'.³

On 3 August, China's Ministry of Commerce said that China is poised to impose retaliatory tariffs of 5%, 10%, 20% or 25% on US\$60 billion worth of US imports, if the US goes ahead with the tariffs on US\$200 billion worth of Chinese goods.⁴ Now that the US tariffs become a reality, it is highly likely that China will implement the said tariffs as retaliation.

According to US media reports, some Chinese officials advising the leadership also proposed to hit back at the US by restricting China's sales of materials, equipment, components and parts which are key to the US manufacturers' supply chains.

² <https://www.congress.gov/bill/115th-congress/house-bill/4318/text>

³ <http://www.mofcom.gov.cn/article/ae/ag/201809/20180902788074.shtml>

⁴ <http://www.mofcom.gov.cn/article/ae/ai/201808/20180802772616.shtml>

Our take

1. The latest round of US tariffs will give the US more leverage in potential negotiations with China, putting more pressure on China to give in to US demands. However, the tariffs could also complicate the potential trade talks between the two countries which were reportedly scheduled to begin on 20 September, if not ruin them altogether. 'China is not going to negotiate with a gun pointed to its head,' said a Chinese senior official who advises the Chinese leadership on foreign-policy matters.

Moreover, the tariff announcement, which comes just days after US Treasury Secretary Steven Mnuchin extended an invitation to Chinese officials for another round of trade talks, may further undercut the credibility of Mnuchin and the US government in the eyes of China, making it even more difficult to restart talks.

2. The latest US tariffs would bring the total amount of imports from China that face additional tariffs to about US\$250 billion, roughly half of the US\$505 billion of Chinese imports. In such a rapidly escalating trade war, additional import duties could eventually be extended to cover almost all items traded between the world's two largest economies.

Against this backdrop, sourcing businesses need to get prepared for the possible escalation of the China-US trade war and carry out strategic planning and re-planning for their supply chains, to mitigate potential negative impacts on their business. This includes exploring alternative sources of supply, redirecting shipments, restructuring production chains, as well as conducting country of origin management, tariff engineering and customs valuation planning.

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