Fung Business Intelligence
Global Sourcing
14 May 2019

US to impose 25% additional tariffs on US$300 billion of Chinese imports

On Monday, the USTR released a product list for 25% additional tariffs on US$300 billion of Chinese products, implementing the threatened tariff hike by Trump earlier. The move follows China's announcement of retaliatory tariff increase on US$60 billion of US goods. We will continue to closely monitor developments in this regard.

USTR proposes tariff hike on US$300 worth of Chinese imports

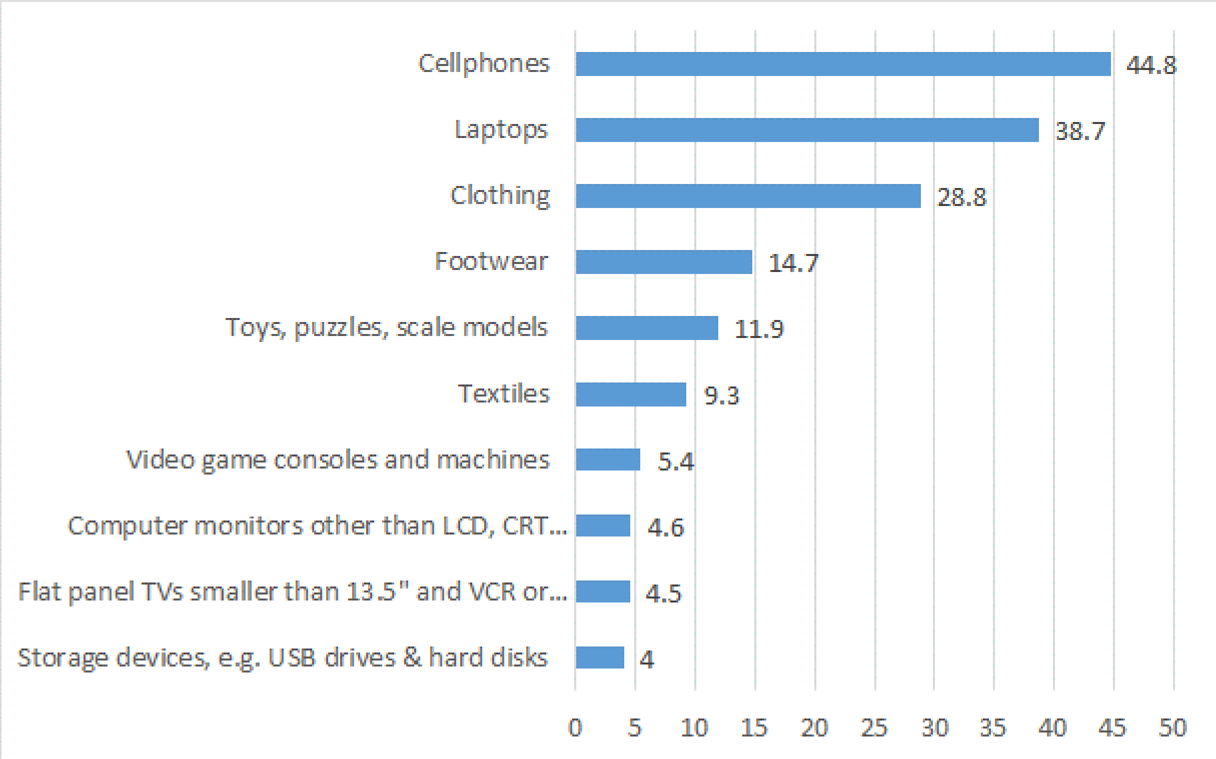
On 13 May, the Office of the US Trade Representative (USTR) released a product list for 25% additional tariffs on approximately US$300 billion of Chinese products[1], implementing the tariff hike threatened by US President Donald Trump on 5 May.

The nearly 140-page list involves 3,805 product items, covering nearly every consumer product left untouched by previous US tariffs on US$250 billion worth of Chinese imports, such as clothing, shoes, cellphones, laptops, and watches. However, the list excludes pharmaceuticals, certain pharmaceutical inputs, select medical products, rare earth minerals, and critical minerals. Moreover, any products given exemptions on prior tariffs will not be affected by the latest tariffs, the USTR said.

[1] https://ustr.gov/sites/default/files/enforcement/301Investigations/May_2019_Proposed_Modification.pdf

The USTR will hold a public hearing on 17 June followed by another week for comments, marking a much shorter public comment period than previous rounds.[2]

Top 10 Chinese goods on latest US tariff list (value of imports from China in 2018 in billion US$)



Source: US International Trade Commission, compiled by Fung Business Intelligence

China raises tariffs on US$60 billion of US goods

The Customs Tariff Commission of China's State Council said in a statement on Monday night (13 May)[3] that China will raise tariffs on roughly US$60 billion worth of US products, effective 1 June, in retaliation for the US hiking tariffs on US$200 billion of Chinese goods from 10 May.

In the revised product list, additional tariffs on 4,545 US products will be increased to 10% to 25% from the current 5% to 10%. Another 595 products will face an unchanged 5% tariff rate, while 67 items (such as auto parts) will be spared from extra tariffs. Targeted goods include machinery, mechanical appliances, minerals and metals, chemicals, wood products and paper, and agricultural products such as coffee, honey and vegetables.

[2] Proposed tariffs on a US$200 billion list of Chinese imports received about 71 days of public scrutiny last year, versus as little as 42 days for the latest round of tariffs.

[3] http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201905/t20190513_3256788.html

Top 10 US items on China's tariff list

Rank	Tariff item	Product description	China's import from US in 2017 (in million US$)	Current additional tariff rate (%)	New additional tariff rate (%)
1	4703.21.00	Coniferous chemical wood pulp, soda or sulphate	1,070	5	5
2	4101.50.19	Whole raw hides and skins of equine animals, weight>16kg	892	5	5
3	4407.91.00	Oak wood, sawn/chipped lengthwise, sliced/peeled, thick>6mm	829	10	25
4	8479.89.99	Other machines and mechanical appliances, NESOI	691	10	20
5	2603.00.00	Copper ores & concentrates	681	10	25
6	8523.49.20	Optical media for apparatus of heading 84.71, other than reproducing sound/image	645	5	5
7	2711.11.00	Natural gas, liquified	637	10	25
8	9018.39.00	Needle NESOI, catheters, cannulae & the like	571	5	5
9	9027.50.00	Other instruments & apparatus using optical radiations	532	5	5
10	3304.99.00	Beauty, make-up or skin-care preparations, NESOI	505	10	25

Source: MOFCOM and ITC Trade Map, compiled by Fung Business Intelligence

Trump warns of worse consequences if China retaliates

Before China's announcement of tariff retaliation, Trump tweeted on Monday that China would retaliate at its own risk: 'China should not retaliate – will only get worse!' He also warned Chinese President Xi Jinping that 'China will be hurt very badly' if the two countries do not reach a trade deal.

Estimates of impact of US tariffs

Trump said that the extra costs brought about by the US additional tariffs are mostly borne by China. 'This has been proven recently when only 4 [percentage] points were paid by the US, 21 [percentage] points by China because China subsidizes product to such a large degree,' he said. However, Gao Lingwen, a senior research fellow at the Chinese Academy of Social Sciences, recently estimated that most of the extra tariff costs are actually borne by US retailers and consumers. 'Chinese exporters have had to shoulder about 10% of the tariff burden imposed by the Trump administration so far. The remaining 90% is eventually passed on to US retailers and consumers,' Gao said.

Our take

1. The tit-for-tat tariff hikes mark a re-escalation of the yearlong trade war between China and the US. Nonetheless, it remains possible that China and the US will engage in further negotiations to reach a comprehensive trade agreement to end the trade war. Although the US tariff increase on US$200 billion of Chinese goods officially kicked in on 10 May, Chinese goods exported before that day would not be subject to the extra 25% tariffs, meaning that the US will not be collecting extra tariffs on Chinese goods until several weeks later. Meanwhile, China's announced tariff increase on US goods will only take effect on 1 June. This delay in implementation of the tariff hikes has created a window during which the two countries can continue to negotiate, leaving open the possibility of withdrawing the tariff hikes if there are breakthroughs in the trade talks during the period.

   Moreover, the consultation period for the US tariffs on US$300 billion of Chinese imports will be completed on 24 June, a few days before the G20 Summit in Japan on 28-29 June, where Trump said he will meet with Chinese President Xi. The timing would allow Trump to be in a position to cancel or postpone the additional tariffs if the meeting goes well.

   That said, in the longer term, even if the two countries can reach a trade agreement to end the trade war, broader uncertainties and tensions (such as the escalating technology war) between the two countries are likely to remain for a long time, as the key issue between China and the US is geopolitical rivalry instead of trade.

2. The proposed 25% additional tariffs on another US$300 billion of Chinese imports, combined with tariffs in-place on US$250 billion of Chinese goods, would subject nearly all Chinese imports to extra tariffs.

Against this backdrop, sourcing businesses need to get prepared for a full-fledged 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.

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.

About Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail. The Fung Group comprises 42,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

For more information, please visit www.fbicgroup.com.

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