

Tit-for-tat tariffs to impact billions of dollars in US, China trade

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By Evan Fallor

As the prospect of a tit-for-tat trade war looms, trade experts and economists warn that tariffs on roughly \$100 billion in commerce between the U.S. and China could have grim implications for U.S. producers, consumers and the global economy.

The escalation in friction between the world's two biggest economies rattled global markets on April 4, impacting producers of everything from soybeans to airplanes and spurring an outcry from U.S. farm and business groups, after Beijing's Ministry of Commerce announced it would tack an additional 25% tariffs on 106 U.S. imports in retaliation to the Trump administration's proposed 25% duties on Chinese imports.

While some industry officials believe negotiations will prevent the implementation of either set of tariffs, which each target shipments worth roughly \$50 billion, there are fears that even the prospect of levies could disrupt prices and supply chains.

U.S. tariff list

The proposed U.S. tariffs, first outlined in a March 22 memorandum by President Donald Trump and detailed by the U.S. Trade Representative's office on April 3, result from a Section 301 investigation into Chinese trade practices that concluded in March.

Aimed at a tenth of the \$505 billion in Chinese imports to the U.S. in 2017, they target approximately 1,300 products. Flat panel screen televisions larger than 34.29 cm incorporating DVD players formed the largest single category, with an import value of \$3.89 billion in 2017, according to data compiled by Panjiva Research, a division of S&P Global.

Duties on televisions as well as on their circuit boards and other electronics components would raise consumer prices both directly and indirectly, according to Jack Cutts, director of business intelligence and research for the Consumer Technology Association.

"If enacted, these tariffs would apply at virtually every level of the value chain," Cutts said.

The list largely targets high technology products, including aerospace and other machinery, but also certain types of motor vehicles,

aluminum alloy, and consumer items including household dishwashers, and centrifugal clothes dryers. They include imports worth \$1.35 billion of printer parts, \$417.6 million of thermostats, and \$225 million of cash registers.

U.S. shoppers will likely bear the brunt of the added 25% costs, said Gary Hufbauer, nonresident senior fellow at the Peterson Institute For International Economics.

"If these \$12.5 billion in extra tariffs go into effect, it will be passed down to the consumer for sure," Hufbauer said. "These inputs from China are going to be assembled into something much larger."

However, Chris Rogers, a research analyst for Panjiva Research, said the Chinese auto industry could be hit hardest.

Mid-sized motor vehicles, at \$1.42 billion in imports in 2017, represent the second-largest chunk of products targeted.

"The sector that's going to get slapped around is the auto sector," Rogers said. "This is designed to preempt China becoming the Mexico of the future in terms of car supply to the U.S."

The American Automotive Policy Council, a trade group representing General Motors Co. and Ford Motor Co., declined comment.

The U.S. has set a 60-day public comment period for the proposed tariffs.

China's tariff list

China responded swiftly with its own measures, including levies aimed at agriculture products from states that supported Trump in the 2016 election. The U.S. president continues to rail against the trade deficit with China, vowing to move forward with tariffs.

High on China's list were U.S. soybeans. China took 1.4 billion bushels in 2017, 61% of total U.S. soybean exports.

"A 25 percent tariff on U.S.

Top 5 imports from China targeted by US tariffs

Import product	Total import value in 2017 (\$M)
Flat panel screen televisions larger than 34.29 cm with included VCR or player	3,889.5
Motor vehicles with spark ignition and internal combustion reciprocating piston engine between 1,500 and 3,000 cc	1,420.0
Printing, copying and fax machine parts and accessories	1,352.9
Non clad rectangular aluminum plates, sheets and strips with thickness greater than 0.2mm	1,076.5
Magnetic disk drives smaller than 21 cm in diameter without attached external power supply	882.1

Other select targeted imports from China

Import product	Total import value in 2017 (\$M)
Parts for air conditioning machines, excluding compressors and chassis	821.8
Parts of airplanes and helicopters, excluding undercarriages, propellers and rotors	460.1
Refrigerating or freezing equipment, excluding compressors	455.7
Color video monitors with flat panel screens smaller than 34.29 cm without an included VCR or player	417.7
Automatic thermostats	417.6
Medical, surgical, dental and veterinary instruments and appliances	303.7
Cash registers	225.4
Nickel-cadmium storage batteries, excluding those used as the primary source of power for electric vehicles	39.3
Aluminum fittings for tubes and pipes	30.3
Cooking stoves, ranges and ovens	25.9

Data compiled April 4, 2018.
Source: Panjiva

Top 5 US exports to China targeted by tariffs

Export product	Total export value in 2017 (\$M)
Airplanes and other aircraft heavier than 15,000kg	14,048.7
Soybeans	13,960.4
Motor vehicles	10,317.8
Natural gas, gaseous state	1,761.0
Motor vehicles with internal combustion piston engine (diesel or semi-diesel)	1,265.4

Other select US export products targeted by Chinese tariffs

Export product	Total export value in 2017 (\$M)
Cotton	980.2
Grain sorghum	713.9
Diagnostic or laboratory reagents on a backing and prepared diagnostic or laboratory reagents	712.7
Plastics and articles thereof	479.4
Wheat and meslin cereals	275.1
Prepared glues and other prepared adhesives not exceeding a net weight of 1 kg	222.3
Tobacco and manufactured tobacco substitutes	167.6
Soap, organic surface-active agents	126.3
Plates, sheets, film, foil and strips of plastics not reinforced or similarly combined with other materials	95.3

Data compiled April 4, 2018.
Source: Panjiva

soybeans into China will have a devastating effect on every soybean farmer in America," John Heisdorffer, president of the American Soybean Association, said in a statement. "It should surprise no one that China immediately retaliated against our most important exports."

A 40 cents a bushel fall in soybean futures as of April 4 would cost farmers \$1.72 billion in value based on a projected 2018 crop of 4.3 billion bushels, the association said.

Davie Stephens, a farmer from Clinton in southwestern Kentucky, said in an interview that the uncertainty would disrupt years of relationships with China and impact the 2019 and 2020 seasons. Still, he is not changing any planting plans until he knows more.

"Personally, it's a huge concern," Stephens said. "I've got seed in the shop, but do I convert that or not? I don't want to make too quick of a response. I haven't planted anything yet."

The tariffs even drew the ire of Senate Majority Leader Mitch McConnell, who spoke to farmers on April 3 at an event in Shelbyville, Kentucky, according to the *Louisville Courier-Journal*.

"I am nervous about getting into trade wars and I hope this doesn't go too far," McConnell reportedly said. "This is a slippery slope, so my hope is that this will stop before it gets into a broader tit-for-tat that can't be good for our country."

Other U.S. exports targeted by China include airplanes and motor vehicles, both worth more than \$1 billion in export value in 2017.

Potential Impact on Economy

Despite the tariffs still being subject to approval from both countries before they are implemented, their overhang will cause concern both now and going forward, said Rajeev Dhawan, director of the Economic Forecasting Center at the J. Mack Robinson College of Business at Georgia State University.

"In between there will be reaction," Dhawan said. "But now, there's a seed of doubt in farmers' minds that this problem can come back six months from now. It negatively impacts planting for next season."

As to the potential impact on the global economy, Hufbauer of the Peterson Institute said he believes the tariffs could stifle China's GDP growth by as much as a percentage point.

"The big point is the exporters of these products will feel the pain much more on the U.S. side than the importers from China," he said.

Stephens, the Kentucky farmer, said that agriculture, at least, will continue to lobby against the tariffs as the U.S. pursues its trade negotiations with Beijing.

"Farmers are resilient like soy, which is a very resilient crop," Stephens said. "They will work through whatever is in front of them."