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UPDATE: Electronics, furniture most exposed to latest tariffs on China

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By Evan Fallor

Imports of Chinese furniture, IT networks and personal computer components are set to be most affected by the latest — and largest — batch of tariffs threatened by the U.S. in the escalating trade war that has rattled markets and businesses around the globe. But the key apparel sector, which would hit less well-off U.S. consumers, has been spared, and the tariff rate was lower than feared.

The Trump administration announced July 10 that it would explore another set of 10% tariffs on $200 billion of 6,031 Chinese products, a wide-ranging list targeting broad swaths of goods important to the U.S. economy. These would follow earlier 25% tariffs in the process of being imposed on $50 billion in imports.

The most exposed products in the latest round include imported furniture from China, which totaled $29.74 billion for the year ended May 31, as well as numerous types of electronics, including $24.30 billion of IT networks, and $17.56 billion of PC components, according to Panjiva Research, a division of S&P Global Market Intelligence.

Several types of consumer products would be subject to increased costs, according to Panjiva, including computers, $8.68 billion of which were imported from China over that period, as well as $8.92 billion of handbags and hats and $3.60 billion of appliances.

China accounts for 53.8% of U.S imports of bags and hats, according to Panjiva, as well as 24.8% of computers, and 58.8% of appliances, meaning sourcing alternatives could prove rather difficult because of the production dominance.

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Chris Rogers, research director for Panjiva, said he is eyeing furniture in particular.

"Furniture will likely have the largest impact on consumers as it is both the largest consumer line item and is highly reliant on China for supplies from overseas," Rogers said in an interview.

Though several consumer staples have now been targeted in the trade spat — tariff impositions and threats on China have previously been limited to primarily industrial goods — Rogers said the exclusion of one product, in particular, could have been a tactical move.

"It is very notable that apparel was excluded," Rogers said. "That speaks to the potentially regressive nature of tariffs on apparel for lower income customers, assuming manufacturers raise prices rather than simply country-hop."

Textiles from China, however, are being targeted. Bicycles, mattresses, vacuums and tilapia, all of which are at least 75% sourced from China, are also being targeted. Baseball gloves, dog and cat food, dog leashes, and lamps are also targeted.

Largest Chinese import categories targeted by US tariffs on $200 billion worth of goods

Product	Import value from China ($B)	Imports from China as a percentage of total imports (%)
Furniture	29.74	57.4
IT Networks	24.30	49.0
PC components	17.56	70.1
Transport	12.35	16.9
Plastics/rubber	10.63	24.7
Metals	10.32	18.7
Chemicals	9.62	15.9
Bags/hats	8.92	53.8
Computers	8.68	24.8
Tools/metal products	6.48	38.3
Stone and glassware	5.13	28.9
Textiles	3.85	26.1
Appliances	3.60	58.8
Processed food	2.71	6.8
Fish, meat and dairy	2.42	12.1

Data compiled July 11, 2018.
Includes 15 largest import categories targeted by newly announced U.S. tariffs by import value from China for the 12 months ended May 31, 2018.
Source: Panjiva

The latest round of U.S. tariffs would cover more than half of the value of imported goods from China, which totaled $505.5 billion in 2017.

The U.S. imposed 25% levies on $34 billion worth of imports from China on July 6, a measure taken as a result of a Section 301 investigation by the Trump administration, citing China's distorting trade practices, including the forced intellectual property transfer of American companies doing business there.

The Trump administration is poised to impose a 25% tariff on another $16 billion of imported Chinese goods in the near future, although a firm implementation date has not yet been given. With the latest announcement of $200 billion, tariffs could be implemented on a total of $250 billion in Chinese imports. Trump threatened to impose tariffs on another $200 billion of Chinese goods on July 6 if China retaliates once again, which could bring the total to $550 billion in Chinese goods under threats of a tariff.

The Office of the U.S. Trade Representative did not specify when the tariffs will be imposed but did say that public hearings will be held on the $200 billion tranche Aug. 20-23.

Rajiv Biswas, the Asia-Pacific chief economist at IHS Markit, said Chinese exports of textiles, electronic equipment, metal products, auto parts and glass products would be hit hardest by the latest batch of tariffs.

"The impact of the additional U.S. measures will hit the Chinese export sector hard, particularly for key Chinese manufacturing export industries such as textiles, metal products, auto parts, glass products as well as electrical and electronic equipment," Biswas said in a note.

While economists said the scope of the total U.S. tariffs and Chinese counter tariffs will have an impact on the U.S. economy, some said the smaller tariff of 10% in this latest tranche could have less of a sting.

"The tariffs that have been implemented so far have had a pretty negligible impact," Scott Hoyt, senior director for Moody's Analytics said. "Obviously this is quite a bit bigger, but I suspect the impact would be relatively small. Maybe a few tenths percentage points of GDP."

U.S. consumers are partially protected from increased prices because of increased purchasing power from Republican tax cuts and strong employment and growth in wages, Hoyt said. The broader economy may take a small hit should the tariffs go into effect, he noted.

Besides the composition of the list, the 10% tariff rate stood out the most to Gary Hufbauer, nonresident senior fellow at the Peterson Institute for International Economics.

"I thought the most interesting part was that the threatened tariff cut down to 10%," Hufbauer said in an interview. "Not that that's good. But 10% is a lot better than the 25% previously imposed on the first $34 billion. I see a little bit of restraint and the second feature of restraint is unspecified future date that these will be imposed. That gives added flexibility for potential negotiations."

Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University's Robinson College of Business, was also particularly interested in the 10% rate, primarily because the yuan has dropped in recent weeks, which he said could offset the impact of the latest tariffs. Had the proposed tariff rate been 25%, there would have been no avoiding higher prices for consumers, he said.

"At 25%, there's no way. It will get passed on. There's not enough margin in the system," he said. "At 10%, it's a wash. If the other side drops its currency there is no change to the U.S. consumer, but you've done your tariffs. All costs go on to the Chinese. It's having your cake and eating it too."

The tit-for-tat tariffs will likely not stop there. China has not shied from retaliating against U.S. tariffs previously, and the Trump administration has made clear it plans to target yet another $200 billion of Chinese goods should China retaliate against this $200 billion tranche.

The announcement immediately drew concern from the retail industry, which says it is still grappling with the effects from the previous tariffs on $34 billion in imports imposed less than one week ago.

"American retailers and the families we serve barely had time to process the barrage of tariffs implemented last week," Hun Quach, vice president of international trade for the Retail Industry Leaders Association, said in a statement. "Now, we will need to grapple with new tariffs on an additional $200 billion worth of imports, which are bound to include even more consumer products and everyday essentials."

"Tariffs on such a broad scope of products make it inconceivable that American consumers will dodge this tax increase as prices of everyday products will be forced to rise," David French, senior vice president for government relations for the National Retail Federation, added in a separate statement. "And the retaliation that will follow will destroy thousands of U.S. jobs and hurt farmers, local businesses and entire communities."

Marianne Rowden, president and CEO of the American Association of Exporters and Importers, said the group's members are concerned about China delaying imports into the country in retaliation for the tariffs, particularly shipments with a limited shelf life.

"Most people recognize that the administration is trying to get at long-standing, difficult, big issues and people appreciate that," Rowden said in an interview. "We wonder why the administration didn't try to get our allies on our side, go to the WTO [World Trade Organization] and really hash out those issues. I think that's the big mystery."

One domestic textile group lauded the tariffs. The National Council of Textile Organizations, or NCTO, a trade group representing American fiber and yarn producers and domestic fabric and home furnishings manufacturers—called it the right move to protect U.S. industries.

The administration is targeting $3.85 billion in imports of textiles from China.

“The Trump administration is right to confront China’s unfair trade practices. Section 301 tariffs show the world that countries who cheat the United States on trade will be held accountable,” said NCTO President & CEO Auggie Tantillo.

The textile trade group asked the Trump administration to also include Chinese finished textile and apparel products on future Section 301 tariff impositions in order to make the U.S. textile and apparel industries more competitive.