



# The Bottom Line

September 2019 | VOL. 4

## TRUMP ADMINISTRATION PUBLISHES FOURTH LIST OF CHINESE GOODS SUBJECT TO ADDITIONAL DUTIES

### Summary

On September 1, 2019, the fourth list of products subject to punitive duties aimed at pressuring China to change trade policies goes into effect. After more than a year of back-and-forth negotiations, this announcement represents the largest group (\$300 bn) of commodities subject to additional tariffs and will affect many consumer commodities, including wearing apparel, cell phones, and laptops.

### Background

The Trade Act of 1974 (Section 301) authorizes the President to take all appropriate action, including retaliation, to obtain the removal of any act, policy or practice of a foreign government that violates an international trade agreement or is unjustified, unreasonable, or discriminatory, and that burdens or restricts U.S. commerce. In August 2017, the President instructed the U.S. Trade Representative to investigate China's unfair trade practices. The results, announced in March 2018, concluded that China does engage in activities, including foreign ownership restrictions on business in China, requirements for technology transfer to Chinese entities, investment in U.S. firms to obtain cutting-edge technology and intellectual property, supporting and conducting unauthorized intrusions into computer networks of U.S. companies, and manipulation of Chinese currency to inflate the cost of U.S.-manufactured goods in China. Starting in June 2018, punitive tariffs have been levied against Chinese products entering the U.S. in three phases. China has retaliated by enacting reciprocal tariffs against U.S. agricultural products shipped to China. Repeated attempts at talks have not led to resolution in the upward-spiraling conflict.

### Current Status

In a concession to some U.S. business sectors, the fourth list of goods to be subjected to additional duties has been split into two parts. Part 1 duties will commence September 1. Part 2 duties will commence December 15. China has countered the action with an announcement of more duties on U.S. products as well, to become effective on the same dates. As of Friday, August 23, the Trump administration was "ordering" U.S. companies to leave China and was considering increasing the rate of duty from 25% (tranche 1-3) and 10% (tranche 4) to 30% and 15% respectively. Following a 2015 announcement of the "Made in China 2025" initiative with the stated goal to comprehensively upgrade the Chinese industry in ten key technology sectors so that China can become a world-leading market in those technologies, the likelihood of China reversing its position to appease the U.S. seems remote. On the U.S. side, the administration's determined protectionism shows no sign of abatement.

### Impact

The latest round of duties will hit nearly every product produced in China not covered by previous rounds of additional tariffs, including many consumer commodities. The American Apparel & Footwear Association reports that Chinese manufacturers produce 42% of all apparel and 69% of all footwear purchased in the U.S., approximately \$39 billion worth of goods. Chinese companies are already losing business as U.S. importers are scouting for cheaper, tariff-free sources of the same goods outside China. Cargo volumes have certainly been affected, with imports from China surging in advance of the application of each of the additional tariff groups, and container rates from the U.S. to China falling due to decreased exports.

[USTR List 4A](#) (Effective September 1, 2019)

[USTR List 4B](#) (Effective December 15, 2019)