

US-China Trade Dispute: Next Tranche Of Tariffs On Chinese Goods Starts On 24 September 2018

After China announced late on Tue (18 Sep) that it will be imposing additional tariffs on US goods, effective 1201hrs, 24 Sep 2018, the same day the new US tariff is scheduled to take place. This is in response to the US announcement early in the morning its decision to impose 10% additional tariff on US\$200bn worth of Chinese goods (for further details, please see: US-China Trade Dispute: Next Tranche Of Tariffs On Chinese Goods Starts On 24 September 2018, 18 Sep).

In its statement, the Chinese Ministry of Commerce stated that the new tariff rates will be either 5 or 10% on 5,207 products imported from the US. The tariff rates are imposed on four lists of goods that were announced earlier on 3 Aug 2018 (see our report: US-China: China Retaliates With Tariffs On Additional US Goods, 6 Aug 2018), although tariff rates have been lowered from the 5-25% range in response to the reduced US tariff rate of 10% (this could be raised to 25% from 2019 if both sides cannot achieve a trade deal).

Tariff Rates to Be Imposed on US Products (Effective 1201hrs CST 24 Sep 2018)

Tariff Rate Categories (New rates shown in boxes)	MOFCOM Appendix Number	Number of Items Involved	Estimated Value of US Goods Affected (US\$, billion)
25% 10%	1	2,493	11.0
20%	2	1,078	13.0
10% 5%	3	974	16.0
5%	4	662	20.0
Total	--	5,207	60.0

Source: China MOFCOM, CCTV, UOB Global Economics & Markets Research est

Based on the table, the weighted or blended tariff rate will be 7% for these 4 categories (lower than the 13.25% estimated based on the previously announced tariff rates), which looks to be low compared to the headline figures. However, including the Chinese tariff rate on US\$50bn announced back in Jun, the blended tariff rate applied to US goods would rise to 15% for the entire US\$110bn of US goods (the rate is lower than the estimated 18.6% based on prior announcement of 5-25% tariff rate).

The new blended Chinese tariff rate of 15% matches those imposed by the US at weighted 13% (based on 25% on US\$50bn of Chinese imports and the just-announced 10% on additional goods valued at US\$200bn). While the current tariff rates imposed by both countries are equally matched, this could change if US expands its tariff coverage which will most likely prompt China to follow suit though the latter is unable to match up in terms of size. US has said that it will raise the import duty on the US\$200bn of Chinese goods to 25% starting from 1 Jan 2019, and could also include

“third phase” covering US\$267bn of additional Chinese imports as US President Trump had threatened to do in earlier statements.

The retaliation from China shows that it is not caving in to pressure from the US and is expected to counter US tariff measures blow by blow. As such, the possibility of a third tranche of tariffs, as Trump has threatened, is not negligible. While we think that an eventual agreement on trade is likely, the negotiation process could be long-drawn and fraught with difficulties.



For now, there appears to be no keen interest on restarting trade negotiations. China is reportedly considering to send Vice Minister of Commerce Wang Shouwen to the US for trade talks this month instead of Vice Premier Liu He. This would be a “downgrade” of the seniority level of the discussions, and hence its effectiveness. We think that there could be a more meaningful turn in negotiations after the mid-term elections in the US in November.

Market appears to be taking the trade developments in its stride with Chinese stocks closing higher on Tuesday on expectation of government support measures to offset the tariff impact while USD/CNH reversed an initial uptick to 6.8931 to close lower at 6.8610 (-0.15%) on Tuesday.

Given the trade developments, the aggregate impact of the trade measures will be felt more materially only in 2019 while a more proactive fiscal and monetary policy can help to mitigate some of this impact. With our base-case assumption of tariffs on US\$250 bn of Chinese goods, we are maintaining our growth forecast for China at 6.6% in 2018 and 6.3% in 2019.

We are also keeping our FX forecast. The CNY is likely to trade modestly weaker, to 6.95 by end-2018, 7.10 by end-1Q19 and 7.10 by mid-2019, checked by the counter-cyclical factor (CCF) which the PBOC reactivated last month.

Key Timeline Of US-China Trade Tensions In 2018

	Jan	Mar	Apr	May	Jun	Jul	Aug	Sep
 <p>US</p>	<p>23 Jan Trump announced tariff rates of 20% on imported washing machines and 30% on solar panels and cells, under Section 201 of the 1974 Trade Act.</p>	<p>22 Mar USTR completed and released its "Section 301" report on China. US Trump on the same day proposed 25% tariffs on certain products that are supported by China's "unfair industrial policy", for public comment.</p>	<p>3 Apr USTR proposed list of US\$50bn of Chinese goods subjected to additional tariffs, for public comment and consultation.</p> <p>6 Apr Trump instructs USTR to consider additional tariffs on US\$100bn of Chinese goods due to China's "unfair retaliation"</p>	<p>4 May US trade delegation to Beijing led by Treasury Secretary Steven Mnuchin</p> <p>29 May White House said US to proceed with 25% tariffs on US\$50bn of Chinese imports (including those related to 'Made in China 2025'). List to be published on 15 Jun</p>	<p>15 Jun US announced additional 25% tariffs on 818 Chinese imports worth US\$34bn, from 6 Jul. The 2nd set of \$16bn on a future date</p> <p>18 Jun Trump instructs USTR to identify US\$200bn of Chinese products for additional 10% tariff and threatens to impose tariff on another US\$200bn after that if China retaliates</p>	<p>6 Jul US imposed 25% tariff on US\$34bn of Chinese goods takes effect.</p> <p>7 Jul USTR releases new round of 10% tariffs on new list of Chinese goods valued at US\$200bn. Public hearing & comment period until 5 Sep (which was raised to 25% rate subsequently)</p>	<p>23 Aug US imposed 25% tariff on next US\$16bn of Chinese goods takes effect.</p> <p>24 Aug 4th round of US trade talks led by mid-level officials on both sides ended without any breakthrough</p> <p>30 Aug Bloomberg reported Trump ready to impose tariffs on US\$200bn imports as soon as public comment period ends 5/6 Sep. Also looking at "formula" to determine FX manipulation.</p>	<p>6 Sep USTR ended its public comment period for proposed US\$200bn of Chinese goods targeted next for additional 25% tariffs</p> <p>13 Sep US invites China for 5th round of talks</p> <p>24 Sep USTR to impose 10% tariff on US\$200bn of Chinese goods</p> <p>30 Sep Deadline to pass US Budget</p> <p>Oct US Treasury FX report</p> <p>6 Nov US mid-term elections</p>
 <p>CHINA</p>		<p>23 Mar China proposed tariffs targeting US\$3bn of US goods in response to US' steel and aluminum tariffs, to be effective from 2 April 2018</p>	<p>4 Apr China announced plans to impose a 25% tariff on US\$50bn worth of US exports, including cars & soybeans.</p> <p>10 Apr At Boao, China's Xi said China will lower import tariffs on autos and other products and pledged to protect IP of foreign firms</p>	<p>17-18 May China trade delegation led by Liu He in Washington</p> <p>20 May Both sides announced ceasefire after 2 rounds of talks. In joint state, China said would "significantly increase" purchase of US agricultural and energy goods</p>	<p>3 Jun China warned after the 3rd round of trade talks that it would not honor its pledge to expand purchases of US goods if tariffs imposed.</p> <p>16 Jun China responded with "equal scale & intensity" of 25% tariffs applied on 659 US imports worth US\$34bn from 6 Jul, while a second round of tariffs on US\$16bn of US goods at later date</p>	<p>6 Jul China imposed 25% tariff on US\$34bn of US goods takes effect.</p>	<p>3 Aug China announced it will impose tiered tariff rates of 5% to 25% on US\$60bn of US goods, though the timing of implementation was not specified. We estimate the "blended" tariff rate of approx. 18.6% on the total US\$110bn of goods subjected to tariffs.</p> <p>23 Aug China imposed 25% tariff on US\$16bn of US goods takes effect, in reaction to US' move.</p>	<p>13 Sep China welcomes US invitation for further talks (but no details on who will lead the Chinese delegation)</p> <p>24 Sep China will levy 5-10% tariff on US\$60 bn worth of US goods (5,207 products) in response to US tariff.</p>

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