

US-China Trade Dispute

US new tariff exclusion sets positive tone for truce

US will soon start a new round of exclusion process for Chinese products on the US\$300bn list from 31 Oct 2019 to 31 Jan 2020, the 15th batch of exclusion by far in the process of reviewing claims by companies that their imports are not available outside of China and that the tariffs otherwise harm US interests. In addition, US will commence on 1 Nov 2019 a process for considering extending the first exclusion batch which is set to expire on 28 Dec 2019. Both actions aim to protect US industries and economy, while they also radiate positive signals to China as both sides are close to finalizing a “phase one” deal. However, huge hurdle remains before the cancellation of additional tariffs by US government.

- **The latest round of product exclusion will start soon.** Trump announced on 1 Aug to impose additional 10% tariff on US\$300bn worth of Chinese goods (List 4) in two stages, from 1 Sep (List 4A) and 15 Dec (List 4B) respectively. On 23 Aug, US government increased the rate from 10% to 15%. From 31 Oct 2019 to 31 Jan 2020, the application for tariff exclusion in List 4A will start, during which related parties in the US, including companies and third parties such as law firms, trade associations and customs brokers, can request for exemption at the US Trade Representative (USTR) website. USTR will evaluate each request on a “case-by-case basis” by considering the relevant criteria and seeking opinions from other interested parties. Any exemption will be effective for one year, starting from 1 Sep 2019. Under List 1 and 2, USTR has denied about 61% of more than 13,000 requests.
- **Three main factors to consider when US government processes requests:** (1) Whether the particular product is available only from China, and whether the company made any efforts to source the product from non-Chinese suppliers. (2) Whether the imposition of additional duties (since Sep 2018) on the particular product has or will cause severe economic harm to the requester or other US interests. (3) Whether the particular product is strategically important or related to “Made in China 2025” or other Chinese industrial programs. In addressing each of these factors, the requester should provide support for their assertions. Chinese products which account for large shares of US imports or critical to the competitiveness of US industries, are most likely to get the exemption. But those high-tech products including information technology and telecommunications are unlikely to get exclusion given that “Made in China 2025” remains a big concern for the US.
- **Tariff exclusion aims to reduce the negative impact on US economy, and also radiate positive signals to China.** So far, US has slapped tariffs on US\$550bn worth of Chinese products, bringing visible pain to American consumers and businesses. The exclusion process for List 1, 2 and 3 have been closed and 14 batches of product exclusion have been granted. We view product exclusion as a way for Trump to manage domestic fallout from the trade war. We expect most of the exclusion may get extended when they are about to expire. Indeed, as Trump recently has softened his stance and welcomed an interim deal, the latest tariff exclusion moves help to set a positive tone for the temporary trade truce, which removes some downside risks for the market. That said, tariff arrangements are left uncertain and huge hurdles remain before US removes existing tariffs at the moment.

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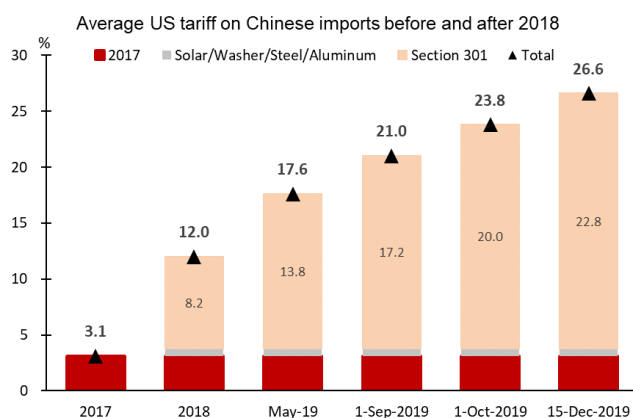
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Figure 1: Prior imposition of tariffs on Chinese imports pursuant to Section 301 investigation and the exemption process

Exclusion batch	Tranche	Product value	Exclusion granted date
1	List 1	US\$34bn	28/12/2018
2	List 1	US\$34bn	25/3/2019
3	List 1	US\$34bn	18/4/2019
4	List 1	US\$34bn	14/5/2019
5	List 1	US\$34bn	4/6/2019
6	List 1	US\$34bn	9/7/2019
7	List 2	US\$16bn	31/7/2019
8	List 3	US\$200bn	7/8/2019
9	List 1	US\$34bn	20/9/2019
10	List 2	US\$16bn	20/9/2019
11	List 3	US\$200bn	20/9/2019
12	List 1	US\$34bn	2/10/2019
13	List 2	US\$16bn	2/10/2019
14	List 3	US\$200bn	23/10/2019
15	List 4	US\$300bn	To be announced

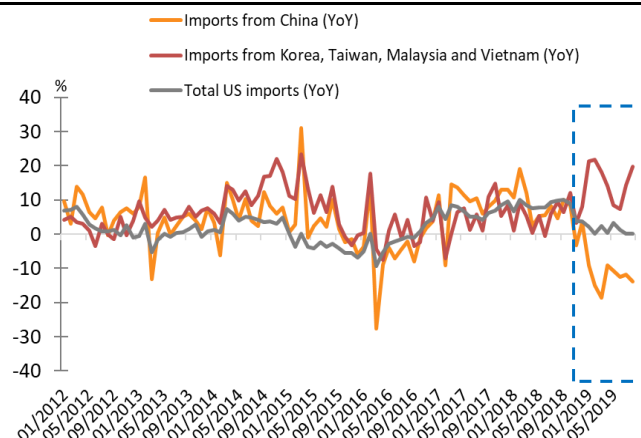
Source: USTR, CMBIS

Figure 2: Average US tariff on Chinese imports have been hiking significantly since trade dispute began



Note: Based on data from Chad P. Bown, 2019
 Source: USTR, CMBIS calculates

Figure 3: US imports from China decreased while its imports from other Asian trading partners increased



Source: CEIC, CMBIS

Figure 4: Products that US depends heavily (over 40%) on China's imports are more likely to be excluded from the tariff list



Note: Data for the year of 2018

Source: ITC calculations based on US Census Bureau statistics, CMBIS estimates

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