The Impact of US Tariffs on 200 Billion Chinese Goods is Compensated

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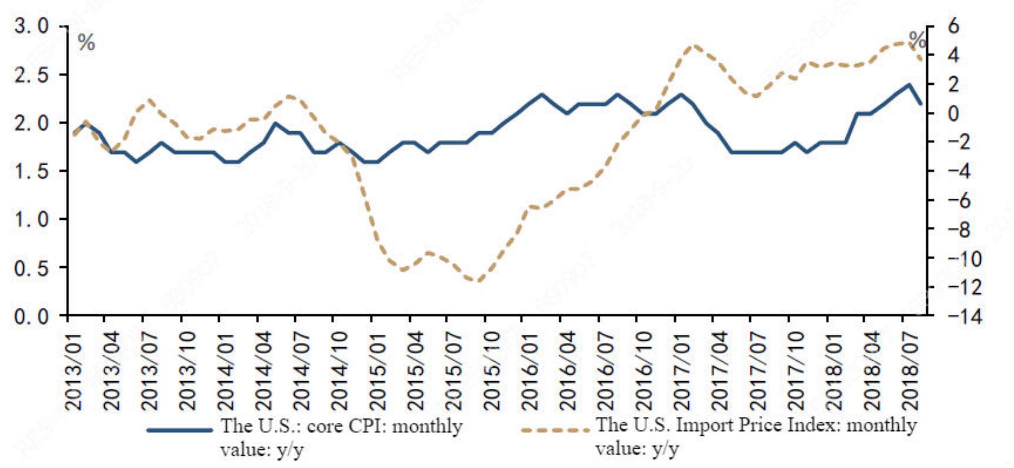
Summary

- We estimate that China's overall export price competitiveness was driven up by 9.7 percentage points, benefiting from a weaker Chinese yuan and an increase in export tax rebates. The U.S. tariffs imposed on Chinese goods likely will drag down Chinese export price competitiveness by 8 percentage points. That is to say, Chinese government's countermeasures are effective to negate the impact from U.S. tariffs. However, it is worth noting that business confidence could fall due to the U.S.-China trade war.

The Trump administration announced tariffs on additional USD200 billion worth of Chinese goods on September 17, 2018 ET. The tariff rate will be 10% upon implementation starting from September 24, 2018, and will be raised to 25% by year end. The U.S. side threatens tariffs on another USD267 billion worth of Chinese goods if China retaliates. Comparing the final tariff list unveiled by the United States Trade Representative (USTR) to the draft one released on July 10, we observed that products fell into 6,031 8-digit tariff subheadings [1] in the draft list, among which goods under 286 tariff subheadings were totally removed and those of another 11 subheadings were partly removed in the final list. As a result, the final tariff list should have an annual trade value smaller than that of the draft list (approximately USD200 billion according to the USTR). Since data on U.S. imports from China by 8-digit tariff subheadings is unavailable, we use the first six digits of these subheadings instead. The import value of Chinese goods that were removed from the final list is roughly USD53.4 billion [2] in 2017.

Figure 1: The U.S. Import Price Index and U.S. core CPI



Source: Wind, CIB Research

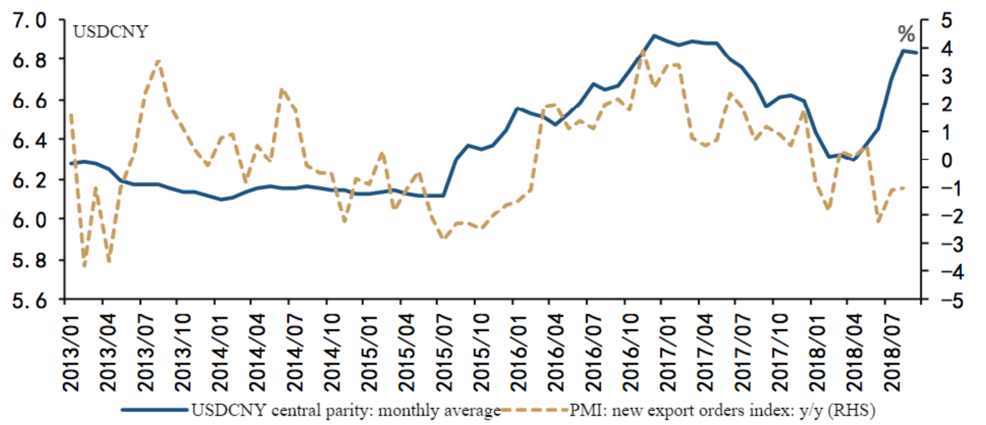
The 10% tariff on USD200 billion of Chinese goods will drive up the relative prices of Chinese exports to the U.S. [3], which will further weigh on China's

[1] All products are classified in the 8-digit subheadings of the Harmonized Tariff Schedule of the United States (UTSUS).
[2] The actual value should be smaller than USD53.4 billion.
[3] **Relative growth rate of prices of Chinese exports to the U.S. = relative appreciation of RMB real exchange rate against the USD + relative growth rate of U.S. tariffs on Chinese products**; **Relative appreciation of RMB real exchange rate against the USD** refers to degree of appreciation of RMB real exchange rate against the USD minus degree of appreciation of other currencies' real exchange rates against the USD on average; **Relative growth rate of U.S. tariffs on Chinese products** refers to the growth rate of U.S. tariffs on Chinese products minus the growth rate of U.S. tariffs on other economies' products on average.

export and economy as a whole. According to the WITS[4], the level of U.S. tariffs on Chinese goods is 2.9% and the level of China's tariffs on U.S. exports is 10.9%. Our model result shows, the 10% tariffs on USD200 billion worth of Chinese products, combined with the previous 25% tariffs on USD50 billion worth of Chinese exports, will raise the average U.S. tariffs on Chinese products to 10.9%. It will drive down China's export growth rate by 1.4% marginally and overall economic growth rate by 0.5 percentage points.

It is worth noting that our model results presented above are on the premise that all other variables remain unchanged. However, Chinese yuan has depreciated by some 8.9% against the USD since April 2018. Specifically, the USDCNY central parity rose from monthly average of 6.3 in April to 6.84 at present. A weaker yuan helps to mitigate the pressure from trade war on China's export to some extent (Figure 2).

Figure 2: USDCNY and PMI new export order index



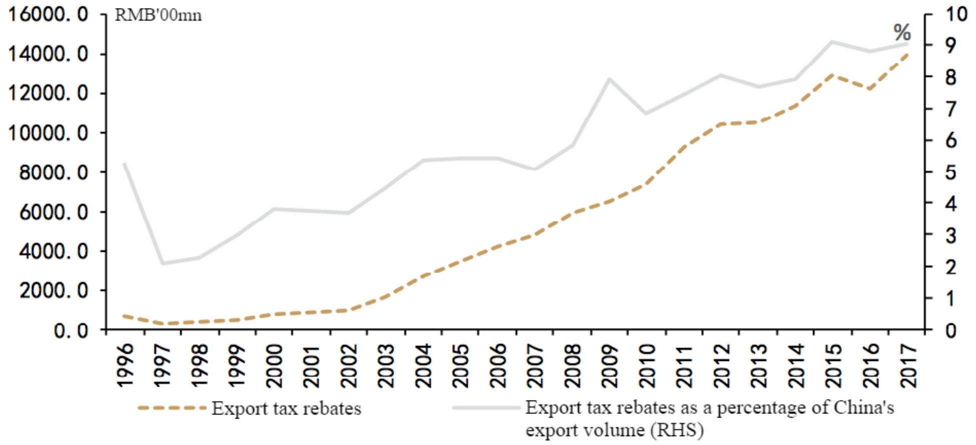
Source: Wind, CIB Research

Chinese authorities announced that it will increase export tax rebates for electronic products, books and newspapers, etc, which will come into effect on September 15, 2018. Some of these products are faced with higher U.S. tariffs and increased rebates will help mitigate the impact. Currently, China's weighted rate of export tax rebates, defined as China's exporters' tax rebates as a percentage of the overall export volume, is 9% (Figure 3). We expect the new tax benefits will result in a USD43.65 billion increase in export tax

4 WITS (World Integrated Trade Solution) is a global trade database co-developed by the World Bank and the UNCTAD.

rebates, using the data on China's export in 2016. That is to say, it will roughly push up the weighted rate of export tax rebates by 1.1 percentage points.

Figure 3: China's export tax rebates as a percentage of China's export volume



Source: Wind, CIB Research

China's overall export price competitiveness was driven up by 9.7 percentage points, benefiting from a weaker Chinese yuan and an increase in export tax rebates. The U.S. tariffs imposed on Chinese goods likely will drag down Chinese export price competitiveness by 8 percentage points (10.9% minus 2.9%). That is to say, Chinese government's countermeasures are effective to negate the impact from U.S. tariffs. However, it is worth noting that business confidence could fall due to the U.S.-China trade war.

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