BBC

Trade war: US hits China with new wave of tariffs

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The US has imposed fresh tariffs on $112bn (£92bn) of Chinese imports such as shoes, nappies and food. **(EXTRACT 1)**

The new tariffs are a sharp escalation in the bruising trade war, and could cost households $800 a year. **(EXTRACT 2)**

The move is the first phase of US President Donald Trump's latest plan to place 15% duties on $300bn of Chinese imports by the end of the year.

In response, Beijing began to introduce measures targeting $75bn worth of US goods. **(EXTRACT 3)**

The measures included a 5% tariff on US crude oil, the first time fuel has been hit in the trade battle between the world's two largest economies.What was initially a dispute over China's allegedly unfair trade practices is increasingly seen as a geopolitical power struggle.So far, Washington has imposed tariffs on hundreds of billions of dollars worth of Chinese goods to pressure Beijing into changing its policies on intellectual property, industrial subsidies, market access, and the forced transfers of technology to Chinese firms.Beijing has consistently denied that it engages in unfair trade practices, and has retaliated with tariffs on a wide range of US products.

It's the American consumer who will bear the brunt of these fresh tariffs, unlike previous rounds which have hit the manufacturing sector hardest **(EXTRACT 4)**.Nappies, dishwashers, shoes, clothes, food - looking through, it's hard to find something that's not on there.Many retailers say they have little choice but to pass on the cost to shoppers.The president of the American Apparel and Footwear Association, Rick Helfenbein, describes the tariffs as like "punishing your daughter for something your son did. It makes no sense".

The next round of tariffs on more clothes and big-ticket items like laptops and iPhones are due in December. Mr Trump says this will help to protect spending during the Christmas season.By the end of the year, they'll be in place on almost all goods that the US buys every year from China.And that could add up to $800 to the average household's annual spend, according to Katheryn Russ from the University of California.

Businesses are finding it increasingly hard to navigate the uncertainty of the long-running trade dispute.Analysts say that in view of the latest escalation, the prospect of a resolution looks grim. **(EXTRACT 5)**

"It's difficult at this stage to see how there can be a deal or at least a good deal," Julian Evans-Pritchard, a senior China economist at Capital Economics, told the BBC.

"Since talks broke down back in May, the position of both sides has hardened and there have been other complications, namely the Huawei ban and Hong Kong protests, which have made it even more difficult to bridge the gap."If fully imposed, Mr Trump's programme would mean that nearly all Chinese imports - worth about $550bn - would be subject to punitive tariffs.

Mr Trump has repeatedly argued that China pays for tariffs, but many US companies have rebutted that claim.More than 200 footwear firms - including Nike and Converse - said the new duties would add to existing tariffs of up to 67% on some shoes, driving up costs for consumers by $4bn each year.They said the incoming tariffs on footwear would "also mean these massive tax increases hit tens of millions of Americans when they purchase shoes during the holiday season".The American Chamber of Commerce in China also voiced concerns after the

"Our members have long been clear that tariffs are paid by consumers and harm business,"

"We urge... that both sides work towards a sustainable agreement as soon as possible that resolves the fundamental, structural issues foreign businesses have long faced in China." **(EXTRACT 6)**

Mr Trump has said that trade teams from the US and China are continuing to talk and will meet in September, but further details have not been publicly confirmed.From 15 December, the second phase of 15% tariffs will be rolled out on the remainder of Chinese good not previously affected.This includes technology like phones which Mr Trump has sought to protect until now.On the same date, China will roll out tariffs on around 3,000 more US products.The Trump administration plans, in addition, to raise the rates on existing duties from 25% to 30% on 1 October.Mr Evans-Pritchard from Capital Economics said this rate could increase further still.

"The tariff rate could go all the way up to 45%," he said. "Those are the goods that do the most damage to China and the least collateral damage to the US."

For the US and Chinese economies, analysts say the pressure created by tariffs is also building.

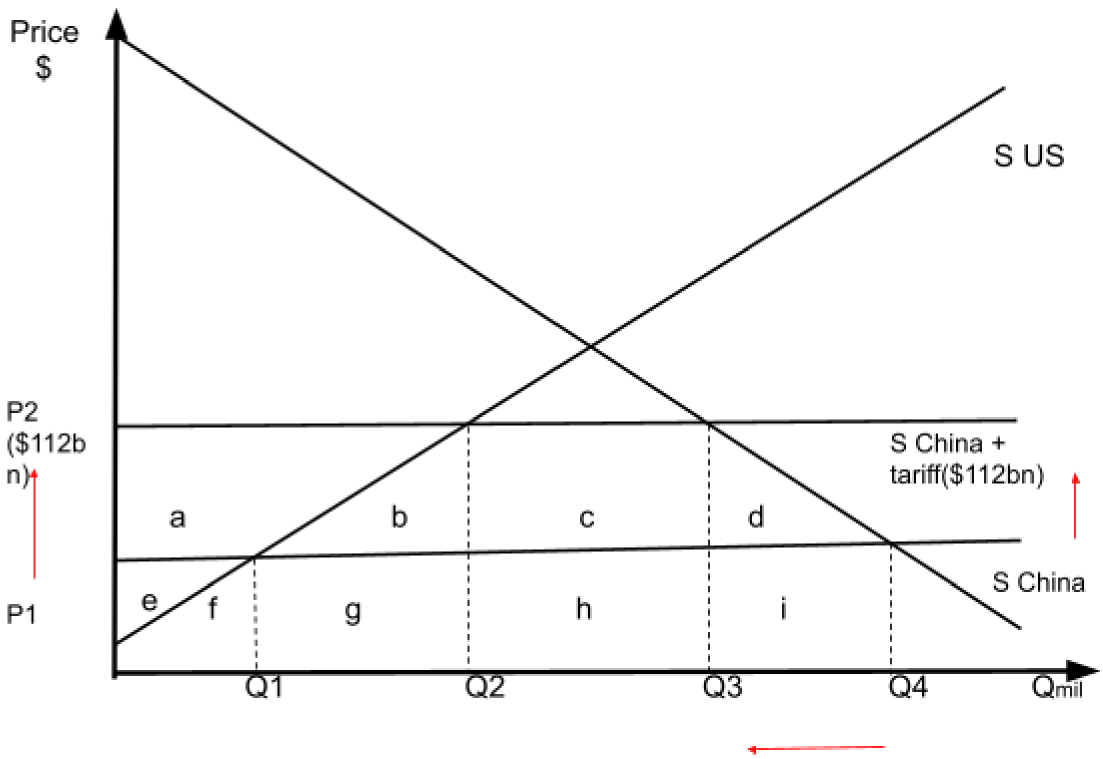
"The full-blown trade war, together with China's retaliation in kind, could reduce potential US GDP growth in the short run by almost 1%," said Gary Hufbauer of the Washington-based Peterson Institute for International Economics. **(EXTRACT 7)**

"The impact on China would be larger, as much as 5%."Until 20 September, the US trade department will collect public comments on the planned tariff increases to 30%.

This article is talking about the US's decision to impose tariffs of $112bn on chinese goods[1] and how this is affecting not only the Chinese economy but also the US as well. Apart from this, the article gives some potential risks associated and as well as some solutions to the problem.

A Tariff can be defined as a tax placed by the government on imported goods. These have the effect of raising the price for consumers, lead to a decline in imports, and also lead to retaliation by other countries[2]. Retaliation can be defined as an action taken by a country whose exports are adversely affected by the raising of a tariff or other trade restricting measures by another country[3].The trade war between the US and China has escalated to a point where it is costing domestic households about $800 annually[4]. The brutal effect of this bruising trade war in which Trump is increasing tariffs is China retaliating by introducing 'measures targeting $75bn worth of US goods'[5].

<u>Tariff on imported Chinese goods</u>



[1] Extract 1
[2] https://www.economicshelp.org/blog/glossary/tariffs/

[3] https://www.globalnegotiator.com/international-trade/dictionary/retaliation/
[4] Extract 2
[5] Extract 3

As shown in Figure 1, due to the new wave of tariffs that Trump has placed on Chinese imports, the Chinese supply curve shifts upwards, leading to the price for consumers going up from P1 to P2, therefore leading to a reduction and decline in the amount of imports. Before Trump introduced the tariffs, the imports were Q4-Q1, but afterwards imports fall to Q3-Q2. The consumer surplus falls by a+b+c+d and as indicated in the article, it is the American consumer who will bear the brunt of these fresh tariffs[6]. The amount of revenue that the American government raises through these tariffs is shown by the area (c). Domestic suppliers gain an increase in producer surplus which is shown by the area (a). Lastly, the overall net welfare loss is indicated by the areas b and d. US producers also gain welfare (b) and revenue.

The tariffs implemented by Trump which can be seen as a form of protectionism will benefit domestic producers in the short run, this is because the higher prices will allow firms to sell more, thereby increasing their profits as a result. Apart from this, there will be increased employment in domestic industries. However in the long run, the continuing trade war is causing uncertainty[7] for businesses, because the continued rise in prices affects American consumers the most, hence leading to a loss in consumer surplus. Another advantage that the US is gaining from placing these tariffs is to raise government revenue which will be used to spend more on merit goods that will be of benefit to the majority of American society. Not only this but that China, a foreign producer will sell less at the same price, hence leading to decreased profits and in the long run unemployment in China. Overall, what will be experienced is a shift from efficient foreign producers to less efficient domestic producers which leads to inefficient resource allocation.

As discussed in the article, one of the negative results of the tariffs is the retaliation by China which has targeted more than $60bn worth in American goods. If the trade war continues, as well as retaliation from China, there is a very high risk of the potential GDP loss by the US by 1% in the short run[8]. One of the solutions discussed in the article is for the two countries to 'work towards a sustainable agreement'[9] to solve the problems faced by foreign businesses. As much as this is important, more practical steps could have been taken by the US government to prevent the situation from reaching. One such step is that instead of placing tariffs on Chinese goods, a quota could have been better. This is because as compared to a tariff, quotas stipulate and put a physical limit on the amount of imports in a country, and is a harsher form of protectionism. The government will still be able to make enough profits although one opportunity cost of this is that there is still loss of consumer surplus. The most practical solution to the problem would have been for the US government to implement subsidies for domestic industries. This will increase international competitiveness and reduce loss of consumer surplus as the price does not change.

Word count: 710

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[6] Extract 4
[7] Extract 5
[8] Extract 7
[9] Extract 6