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BAMKO White Paper: An Update on U.S. Tariffs on Chinese Imports

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Summary Overview: This is our latest update in a series of BAMKO White Papers exploring the scope and potential impact of proposed U.S. tariffs on Chinese imports. We will take a look at the most recent developments, analyze their potential impact, and explore where this all might be headed.



An Update: On August 1, 2018, President Trump ordered administration officials to consider a 25% tariff on \$200 billion of Chinese goods, more than doubling the 10% tariff rate he proposed last month. In response to the announced tariffs, the Chinese government announced that it has prepared a list of \$60 billion of US goods that it intends to tax in retaliation. All of this marks a sharp escalation in the trade war with China and suggests that an immediate resolution is not on the horizon.

Some Context: This is the latest round in a series of tit-for-tat actions, retaliations, and escalations between the world's two largest economies. It occurs against the backdrop of a protectionist trade policy that has taken aim at a number of global trading partners. If enacted, this would be the third round of China tariffs, including an early round of comparatively modest steel/aluminum tariffs.

On July 6, 2018, the Trump administration enacted a 25% tariff on \$34 billion of imported goods. China immediately responded with reciprocal tariffs on \$34 billion worth of U.S. exports. This back and forth followed two months of negotiations and modifications following an April 3, 2018 announcement that originally proposed tariffs on up to \$50 billion in imported goods.

On July 10, 2018, in response to China's reciprocal tariffs, the Trump Administration announced its intention to levy a 10% tariff on \$200 billion in Chinese imports. Recent comments indicate that proposed tariff rate could climb to as high as 25%. On July 20, 2018, President Trump stated that the U.S. would be willing to impose tariffs on all \$505+ billion in Chinese imports should the reciprocal responses continue. If enacted,

2018.



Where Things Stand: We would classify the current situation as falling somewhere between a Trade Kerfuffle and a Trade Fracas on a scale from 1 to Full-Blown Trade War. We are standing by to upgrade the status to Trade Brouhaha should cooler heads not prevail.

Overall, the U.S. imported more than \$505 billion in goods from China in 2017, leading to a trade deficit of nearly \$376 billion. Should this latest round of tariffs be imposed as announced, just south of 50% of all Chinese imports would be subject to some form of tariff.

Why This Round Is Different: (1) Size; (2) Scope; (3) Trajectory.

- **Size:** For starters, the sheer size of this round (roughly \$200 billion in goods) is more than 5 times larger than the prior round. This means more goods, consumers, and industries affected and a larger overall financial impact.
- **Scope:** The July 6th round of tariffs included very few finished consumer goods, focusing almost exclusively on specific and less prevalent raw materials. This round heavily targets U.S. consumer goods – a target that will ultimately land on the backs of U.S. consumers. Among the consumer products targeted are numerous apparel items and fabric types, handbags, sport bags, paper boxes, packaging, and labels and LEDs. Unlike the last round of tariffs, these products represent a significant portion of the

prices and longer lead times for products as vendors scramble for alternatives and supply chains are squeezed by competing demands.

- **Trajectory:** We now know that the both the U.S. and China are willing to follow through on their respective threats and retaliations. Thus far, neither has blinked. Left unchecked, the escalating eye for an eye approach will leave both sides nursing significant visual impairments.
- **A Twist:** Notably, the total value of U.S. goods exported to China in 2017 was *just* \$130 billion dollars. With tariffs already imposed on \$34 billion of U.S. exports, there remain less than \$100 billion in U.S. exports upon which China could levy reciprocal tariffs. If China intends a proportional response this round of tariffs, it will have to get creative. A one-dimensional countermeasure would be insufficient.



What's Next: The Office of U.S. Trade Representatives will hold hearings on tariffs from August 20-23 and the public comment period will close on August 30. If imposed, this latest round of tariffs would go into effect after August 30, 2018.

This is a highly fluid situation making it difficult to accurately predict what comes next. The administration appears open to a negotiated resolution. Their follow-through on previous threats leads one to conclude that the administration is serious about its intent to obtain meaningful concessions to limit China's purported theft of American intellectual property.



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phenomenon. The impact would disrupt global supply chains, raise input costs, raise consumer prices, and slow economic growth. Expect to see the financial impact start hitting consumers and retailers in the 2018 holiday season. You can also expect significant political backlash on both sides of the aisle to intensify as American consumers and industries shoulder the burden of what is really just a fancy name for a sales tax.



BAMKO: At BAMKO, we continue to closely monitor international trade and the developing tariff situation as it unfolds. For companies with a narrow, highly dependent supply chain, tariffs could prove calamitous. BAMKO is fortunate to have spent years developing a highly diversified, nimble supply chain that will allow us to adapt in real-time. Between BAMKO and our parent company, the Superior Group of Companies, we have offices and suppliers across Asia as well as North, Central, and South America. While tariffs are indisputably bad news for American consumers, our customers will be better insulated from their impact than those of any of our competitors.

Joshua White is BAMKO's General Counsel and SVP, Strategic Partnerships. Mr. White is an expert in helping BAMKO's clients navigate the complex landscape of law and public policy in China and international commerce.



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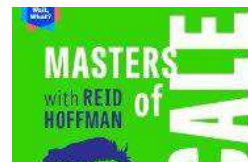
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