US-China trade – Round two winners

- US imports of tariff-affected goods from the world have fallen, potentially signalling ‘final demand’ loss
- US imports from China have fallen more than US imports from the world post-tariff implementation
- Mexico, Korea, Taiwan, Philippines and Vietnam may benefit from US raising tariffs on China’s goods

Assessing the impact of tariffs

The US has threatened to raise the tariff rate on c.USD 200bn of China’s imports to 25% from 10% on 10 May. Just a week ago, news media reported that the US and China were nearing a deal to roll back some tariffs. Despite fast-moving developments, we think it is timely to assess the impact of US tariffs on the affected USD 200bn of imports from China. Two rounds of US tariffs have been implemented so far. ‘Round one’ entailed 25% tariffs on USD 50bn of goods, split into two tranches of USD 34bn and USD 16bn; these were implemented on 6 July and 23 August 2018, respectively.

‘Round two’ – our focus in this report – imposed 10% tariffs on a final list of 5,745 products imported from China (totalling c.USD 200bn), effective on 24 September 2018. Tariffs were originally due to be raised to 25% on 1 March 2019 (the end of the trade truce), but the US postponed this indefinitely in late February, citing progress on trade talks with China. Mexico, South Korea, Taiwan, the Philippines and Vietnam have emerged as the top five ‘winners’ from this round of tariffs. Raising tariff rates further could increase the benefits to these economies; meanwhile, a sudden trade deal rolling back tariffs could see the winners become losers, and vice versa.

Figure 1: China’s share of total US imports has fallen; US imports from China (top 5 HS 2-digit codes* totalling 818 items) – ppt change in % share, Oct 2018-Feb 2019 vs avg of same period over previous 3 years

<table>
<thead>
<tr>
<th>HS code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>85</td>
<td>Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles</td>
</tr>
<tr>
<td>84</td>
<td>Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof</td>
</tr>
<tr>
<td>94</td>
<td>Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, n.e.c.; illuminated signs, illuminated name-plates and the like; prefabricated buildings</td>
</tr>
<tr>
<td>87</td>
<td>Vehicles; other than railway or tramway rolling stock, and parts and accessories thereof</td>
</tr>
<tr>
<td>73</td>
<td>Iron or steel articles</td>
</tr>
</tbody>
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* Harmonised System two-digit categories; Source: US Census Bureau, Standard Chartered Research

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We highlight two key findings from round two of tariff implementation:

- US imports\(^1\) of the affected products from China fell c.16% y/y in absolute terms, and 2.6ppt as a share of total US imports, in the October 2018-February 2019 period versus the average for the same period over the previous three years.
- Mexico, South Korea, Taiwan, the Philippines and Vietnam appear to be the top five winners so far from the second round of trade tariffs.

**US imports of China goods subject to tariffs have fallen**

To assess the change in US imports from China (as a share of total US imports) resulting from tariffs, we look at US imports for October-February 2018-19 versus the average for the same period over the previous three years (2015-16, 2016-17 and 2017-18). This is the same methodology we used in *US-China trade – Have tariffs worked?*, where we measured the impact of the first round of tariffs on c.USD 34bn of US imports from China.

In October-February 2018-19, US imports from China accounted for 22.6% of US imports from the world, down from an average of c.25.3% for the October-February period in the three previous years. On a y/y basis, US imports of these products from China fell 16% in October-February 2018-19. We use data only for October-February to remove the impact of seasonality.

**Who have emerged as likely winners?**

The 5,745 goods imported by the US from China can be grouped into 79 Harmonised System (HS) two-digit categories. Of the 79 categories, the top five (85, 84, 94, 87 and 73) accounted for c.71% of total US imports of goods from China on the tariff list, based on 2017 import values.

For these top five categories combined, we find that Mexico, South Korea and Taiwan appear to have benefited the most since ‘round two’ tariffs were implemented, based on the latest trade data (although there may be other reasons for this). Their shares of total US imports of these goods rose to 26.6%, 4.9% and 4.6%, respectively, in October-February 2018-19 from averages of 25%, 3.5% and 3.4% during the same period in the previous three years. The Philippines and Vietnam also appear to have benefited.

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\(^1\) When we refer to US imports in this report, we are referring to the 5,745 product items in the second-round tariff list valued at c.USD 200bn
‘Final’ demand may have been affected in round two

Based on five months of data from October 2018 to February 2019, total US imports (from the world) of items subject to ‘round two’ tariffs fell c.3% y/y, while those from China fell c.16% y/y (Figure 3). In the same period in the previous two years, total US imports of these items had risen an average c.12% y/y. This could indicate that ‘final’ demand has been affected, or that China’s competitors have been unable to produce enough to absorb diverted US demand.

While there may be relative ‘winners’ and ‘losers’ from a US-China trade war, if final demand falls as a result, we believe there will be no winners on an absolute basis – as we highlighted in our Special Report, Trade tensions – Unintended consequences.

Diverted US demand seems clearer in round two

In ‘round one’ (25% tariffs on c.USD 50bn of imports from China), China’s share of US imports of the tariff-affected items had already been steadily declining in previous years, although it declined further in September-February 2018-19. Therefore, it could not be clearly inferred that the fall in China’s share of US imports was due to tariffs.

In ‘round two’ (10% tariffs on c.USD 200bn of US imports from China), however, China’s share of US imports of the affected items fell sharply in the October-February 2018-19 period after having risen steadily in previous years. This supports the hypothesis that the tariffs reduced US imports from China, allowing ‘winners’ to emerge from diverted US demand.

Figure 4: ‘Round two’ – China’s share of US imports was increasing before tariff implementation

China’s share of US imports of ‘round 2’ tariff-affected items

Source: US Census Bureau, Standard Chartered Research

Figure 5: ‘Round one’ – China’s share of US imports was already decreasing before tariff implementation

China’s share of US imports of ‘round 1’ tariff-affected items

Source: US Census Bureau, Standard Chartered Research
Figure 6: Electrical machinery and equipment – China’s lead over Mexico narrowed by c.5.4ppt

**HS 85: Electrical machinery, equipment – ppt chg in % share of US imports, Oct-Feb 2018-19 vs avg of same period over previous 3 years**

- The HS 85 product category (electrical machinery and equipment) accounted for c.26% of US imports of the tariff-list items in 2017. Total US imports of HS 85 items fell by 35% y/y in the period from October 2018 to February 2019.
- Japan’s share of US imports of HS 85 goods rose by 1.9ppt post-tariff implementation, lifting Japan to third from fourth place.
- Interestingly, Japan’s share of US imports picked up in Oct-Feb 2018-19 despite falling in the same period over the previous three years – potentially indicating that it benefited from the tariffs on China.

Source: US Census Bureau, Standard Chartered Research

Figure 7: Mexico overtook China as the leading exporter of nuclear reactors, boilers, appliances and parts

**HS 84: Nuclear reactors, boilers, appliances – ppt chg in % share of US imports, Oct-Feb 2018-19 vs avg of same period over previous 3 years**

- Among the top five two-digit HS categories, China’s share of US imports fell the most (by 7.3ppt) for the HS 84 category (nuclear reactors, boilers, machinery and mechanical appliances and parts thereof).
- Mexico overtook China as the leading exporter (c.23.3% share) in this category, after having lost its lead to China in October-February 2015-16.
- Taiwan’s share of US imports of HS 84 items rose to fourth place from an average seventh place in the previous three years. South Korea rose to third from sixth place over the same period.

Source: US Census Bureau, Standard Chartered Research

Figure 8: HS 94 category – Vietnam appears to be the biggest winner from China’s loss

**HS 94: Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, n.e.c.; illuminated signs, illuminated name-plates and the like; prefabricated buildings – ppt chg in % share of US imports, Oct-Feb 2018-19 vs avg of same period over previous 3 years**

- Total US imports of HS 94 products fell 0.8% y/y in the Oct-Feb 2018-19 period.
- Vietnam was the biggest winner in this category, likely benefiting from China’s lost exports due to tariff implementation.
- Vietnam’s share of US imports of HS 94 products rose to 11.9% in Oct-Feb 2018-19, consolidating its position as the second-largest exporter of these goods to the US. Vietnam extended its lead over third-place Mexico by 2.5ppt.

Source: US Census Bureau, Standard Chartered Research
Appendix – Round one: 25% tariffs on USD 50bn of US imports from China

Figure 9: Imports from China as a share of total US imports have fallen; US imports from China (top 5 by HS 2-digit code and total of 1,097 items) – ppt change in % share, Sep 2018-Feb 2019 vs avg of same period over previous 3 years

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<td>90</td>
<td>Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories</td>
</tr>
<tr>
<td>39</td>
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<tr>
<td>87</td>
<td>Vehicles; other than railway or tramway rolling stock, and parts and accessories thereof</td>
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# Harmonised System two-digit categories; Source: US Census Bureau, Standard Chartered Research

Figure 10: Top 5 ‘winners’ that may have benefited from US demand diverted from China (change in % share of US imports of HS 84, 85, 90, Sep-Feb 2018-19 vs avg of same period over prev. 3 years)

*Malaysia’s and South Korea’s shares were already rising significantly pre-tariff implementation; Source: US Census Bureau, Standard Chartered Research

Figure 11: Post-tariff implementation, US imports from the world rose marginally, but US imports from China fell

Source: US Census Bureau, Standard Chartered Research
Figure 12: HS 84 – France benefited the most; its share was previously falling
HS 84: Nuclear reactors, boilers, appliances – ppt chg in % share of US imports, Oct-Feb 2018-19 vs avg of same period over previous 3 years

France’s share of US imports of HS 84 items subject to ‘round one’ tariffs has risen, following declines in the previous three years

Source: US Census Bureau, Standard Chartered Research

Figure 13: HS 85 – Malaysia’s share rose the most, but was already on a rising trend
HS 85: Electrical machinery and equipment – ppt chg in % share of US imports, Sep-Feb 2018-19 vs avg of same period over previous 3 years

Malaysia’s share of US imports of HS 85 items subject to ‘round one’ tariffs was already rising in the previous 3 years, and has risen further

Source: US Census Bureau, Standard Chartered Research

Figure 14: HS 90 – Germany’s gains lift it to second place, behind first-place Mexico
HS 90: Optical products, photographic etc. – ppt chg in % share of US imports, Sep-Feb 2018-19 vs avg of same period over previous 3 years

Mexico’s lead over Germany has narrowed to 1.6ppt from 2.3ppt; China has ceded third place to Japan

Source: US Census Bureau, Standard Chartered Research