Insight

Section 301 (China) Tariffs Causing a Fourfold Increase in Tariff Rates

TORI SMITH, TOM LEE | JULY 18, 2022

Executive Summary

- President Biden has to-date chosen to retain Section 301 tariffs on over $300 billion worth of imports from China that were originally imposed by President Trump in July 2018.
- This study finds that, since 2017, these tariffs have resulted in a quadrupling of the trade-weighted average tariff rate Americans pay for Chinese imports, and a doubling of the trade-weighted average tariff rate Americans pay for imports generally.
- Removing these tariffs is an obvious and effective way to mitigate the pain of rising inflation by reducing the costs of goods Americans purchase from overseas.

Introduction

President Biden has to-date chosen to retain Section 301 tariffs on over $300 billion worth of imports from China. This study finds that, since 2017, these tariffs have resulted in a quadrupling of the trade-weighted average tariff rate Americans pay for Chinese imports, and a doubling of the trade-weighted average tariff rate Americans pay for imports generally. The tariffs, originally imposed by President Trump in July 2018, were applied in four tranches (referenced as Lists 1, 2, 3, and 4a) and affect imports ranging from turbines and electronic integrated circuits to bicycles and televisions.

The first tranche of tariffs (List 1), which covered roughly $34 billion in imports, was set to expire on July 6, 2022, under the Trade Act of 1974. The Office of the United States Trade Representative (USTR), however, received petitions from industry requesting that the tariffs continue, so the law now requires USTR to conduct a new review of the tariffs. The other three tranches of tariffs will also reach their expiration dates in the coming months and a similar review process is expected for them, as well.

While President Biden initially expressed opposition to these tariffs in 2020, he has declined to eliminate them despite ample opportunity—and a strong incentive to do so as a way to partially offset inflationary pressures. In fact, the secretaries of the Departments of Treasury and Commerce agree that eliminating tariffs would positively impact the economy and help to ease the pain of inflation. Yet Ambassador Katherine Tai, who will head up the USTR's new reviews, is firmly opposed to eliminating the tariffs, claiming that doing so would weaken the United States' negotiating leverage against China.

Brief Origin of China Tariffs

Between 2018 and 2019, the Trump Administration imposed tariffs – ranging from 7.5 percent to 25 percent – on imports from China following a 2017 investigation by the Office of the United States Trade Representative

(USTR) to determine if the country was engaging in discriminatory practices that harm trade. Then-President Trump based this authority on Section 301 of the Trade Act of 1974, which allows the president to impose tariffs on imports if such harmful practices are found and retaliatory action is deemed appropriate by USTR. The investigation into China's technology transfer and intellectual property rules deemed that the country's actions were discriminatory and cost the United States roughly $50 billion annually.[1] After filing an intellectual property case with the World Trade Organization – as required by U.S. law – the Trump Administration imposed tariffs on $34 billion worth of imports from China. This sparked a series of tit-for-tat bilateral actions to impose tariffs, which eventually covered more than 65 percent of U.S. imports from China and roughly 58 percent of U.S. exports to China.[2]

Once the dust settled in late 2019, the United States had applied tariffs on more than $300 billion worth of imports (based on 2017 import levels) for a trade rule violation estimated to cost $50 billion. The tariffs were applied in four tranches, known as List 1, 2, 3 and 4a. List 1 imposed a 25 percent tariff on roughly $34 billion worth of imports on July 6, 2018. On August 23, 2018, List 2 imposed 25 percent tariffs on roughly $16 billion worth of imports. List 3 covered roughly $200 billion worth of goods and applied a tariff of 10 percent on September 24, 2018. Finally, on September 1, 2019, List 4a tariffs of 15 percent were applied to $126 billion worth of imports from China. List 4a was later modified to lower the tariff on those goods to 7.5 percent.[3]

The Trump Administration also signed the Phase One deal, essentially a ceasefire agreement that came with very modest tariff removal by both sides, with China on January 15, 2020, which lasted two years. Some analysts have suggested that any tariffs over the original $50 billion were not applied legally.[4] A case currently before the U.S. Court of International Trade claims the Trump Administration violated the Administrative Procedures Act when imposing the Lists 3 and 4a tariffs.[5] The Biden Administration has yet to strike a new agreement with China or make any changes to the tariffs. The American Action Forum (AAF) maintains a running cost of the China tariffs in the Total Cost of Tariffs.

New Measure of the Cost of China Tariffs

This study calculates the annual U.S. trade-weighted average tariff rate for 2017 through 2022 year-to-date. The trade-weighted average tariff rate is defined as the duties collected on imports, divided by the total customs value of imports. Table 1 lists the annual U.S. trade-weighted average tariff rates for all imports, and for those from China. Put simply, these numbers show the average tariff paid by Americans to import from abroad.

In 2017, the U.S. trade-weighted average tariff rate was 1.51 percent. Tariffs on Chinese imports began in July 2018; by the end of 2019, the average tariff for Americans to buy from abroad *increased by more than 95 percent.* The dramatic rise in the overall tariff rate is largely due to the imposition of tariffs on Chinese imports. In 2017, the average tariff when importing from China was 2.68 percent, but that cost more than *tripled* following President Trump's tariffs.

Table 1: U.S. Trade-weighted Average Tariff Rate by Year[6]

Year	U.S. Trade-weighted Average Tariff Rate	U.S. Trade-weighted Average Tariff Rate on Imports from China
2017	1.51%	2.68%
2018	1.95%	4.03%
2019	2.97%	9.11%

2020	2.81%	9.91%
2021	3.03%	11.35%
2022 YTD[7]	3.16%	11.82%

When President Biden took office, average tariff rates were highly elevated. New China tariffs were not applied, but the trade-weighted average tariff rate – from China and elsewhere – continued to increase. The trade-weighted average tariff rate is now 3.16 percent, *more than double* its 2017 level. The tariff rate to import from China has increased *fourfold* since 2017, now sitting at 11.82 percent. Average tariff rates are increasing at a slower pace than immediately following the tariffs, and the increase can be attributed to a multitude of factors. The choice to continue the tariffs, however, has resulted in substantially higher tariff rates for over four years.

Battle in the Administration Over Tariffs

Since President Biden took office, conflicting views within the cabinet have emerged regarding the merits of removing or modifying the China tariffs. That debate has increased in recent months as the president has sought policy solutions to stem inflation. In April, then-Deputy National Security Adviser Daleep Singh said the China tariffs "serve no strategic purpose." Treasury Secretary Janet Yellen also suggested in April that removing these tariffs could help ease inflation. More recently, on July 11, Commerce Secretary Gina Raimondo said "lifting tariffs isn't going to bring down top-line inflation in a very significant way…. What it will do potentially is help consumers on certain, as you say, household goods. And so for that reason, given where inflation is, I think it could make sense to do it." A recent report by the Peterson Institute for International Economics estimates that reducing tariffs by 2 percent would decrease inflation by 1.3 percent.

The same sentiment is not echoed by Ambassador Katherine Tai, whose agency oversees the Section 301 tariffs. In June, Tai called the tariffs "a significant piece of leverage," and downplayed the impact tariff elimination would have on inflation. During a June 2021 speech at the AFL-CIO, Tai told workers "you are the backbone of our economy and our democracy. You are the guiding light of trade policy for the Biden-Harris Administration." The AFL-CIO supports the tariffs as a tool to "stop China's illegal trade practices." The AFL-CIO and other labor unions are essential stakeholders for the administration's "worker-centric" trade policy. Tai will also be the principal official overseeing the impending reviews of necessity, which are explained in greater detail below.

Review of Necessity

The Trade Act of 1974 contains a provision titled "review of necessity,"[8] which creates an expiration date for Section 301 tariffs after four years. If domestic industry petitions USTR to continue the tariffs at least 60 days before the four-year mark, however, the agency must review the measures to assess their effectiveness and impact on the economy. During this review process, the tariffs remain in place. The law does not require this review to be completed in a certain amount of time. List 1 tariffs hit the four-year mark on July 6, 2022, and USTR received hundreds of industry petitions. Tariffs on Lists 2 and 3 will reach their four-year mark on August 23, 2022, and September 24, 2022, respectively. September 1, 2023, will mark four years since the imposition of the final tranche, List 4a. As of the publication of this insight, USTR has not issued an updated Federal Register notice detailing the next steps in the review process for any of the tariff lists or when the agency expects the necessity review for List 1 to be completed.

Conclusion

President Trump began imposing tariffs on Chinese imports four years ago, causing the trade-weighted average tariff rate for those goods to triple in just two years. Since President Biden took office, the White House has debated the merits of dropping these tariffs, especially as the United States faces its highest inflation rates in 40 years. While the president has had ample opportunity to eliminate these tariffs, calls within the cabinet to retain them for negotiating leverage with China, as well as union support, have placed pressure on the administration to keep them. Due to President Biden's inaction, the trade-weighted average tariff rate for imports from China is now four times higher than it was in 2017 and it is more than twice as expensive for Americans to import in general.

[1] https://ustr.gov/issue-areas/enforcement/section-301-investigations/section-301-china/investigation

[2] https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart

[3] https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart

[4] https://thehill.com/opinion/international/409012-is-the-china-trade-war-legal/

[5] https://subscriber.politicopro.com/article/2022/04/court-orders-ustr-to-reevaluate-some-of-trumps-china-tariffs-00022478

[6] Author's calculations based on data from https://www.fiscal.treasury.gov/reports-statements/mts/ and https://dataweb.usitc.gov/. The U.S. Trade-Weighted Average Tariff Rate was calculated using official collected custom duties as per the Department of Treasury's monthly financial statements. The value of imports for this measure are the customs value for all imports as reported by the International Trade Commissions (ITC) Dataweb tool. Collected customs duties for China are sourced from the International Trade Commissions (ITC) Dataweb tool using the calculated duties measure. The value of imports for this measure are the customs value for all imports as reported by the International Trade Commissions (ITC) Dataweb tool. The ITC Dataweb tool only contains estimated calculated duties for China. The official collected custom duties are not readily available at the country level. Similarly, the Department of Treasury does not disaggregate official collected customs duties by country. That being said, the estimated calculated duties from the ITC Dataweb are a close measure of the official collected duties.

[7] 2022 numbers are year-to-date (January to April): As of the of June 2022, the most recent import figures provided are from April 2022.

[8] 19 U.S. Code § 2417(c)