Research

Section 301 China Tariffs by End Use

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Executive Summary

- President Biden has to-date retained 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 most of the additional cost burden associated with these tariffs is on imports used by U.S. firms and manufacturers as intermediate inputs in their production processes.
- Removing the tariffs would increase the competitiveness of U.S. firms by lowering their costs, and in turn spurring additional economic output and growth by the U.S. goods-producing sector.

Introduction

The Biden Administration has to-date retained the Section 301 tariffs on over $300 billion worth of imports from China, which were initially imposed in four different tranches (referenced as Lists 1, 2, 3 and 4a) throughout 2018 by the Trump Administration. Based on 2021 data, U.S. consumers paid $48 billion in Section 301 tariffs to import goods from China. This study finds more than half of the amount paid on these tariffs were for Census-defined industrial supplies and/or capital goods that U.S. firms use as inputs in their production processes. Removing the tariffs would lower input costs for U.S. firms, allowing them to lower prices, expand output, increase investment, and ultimately be more competitive in domestic and international markets.

Section 301 Tariffs

Throughout 2018, the Trump Administration imposed four tranches of tariffs, known as Lists 1, 2, 3, and 4a, on imports from China. His administration found this authority in Section 301 of the Trade Act of 1974, which allows the president to impose tariffs on imports from countries that engage in unfair trade practices. The United States Trade Representative specifically found China's technology transfer and intellectual property rules were discriminatory against U.S. firms. To date, President Biden has chosen to retain all four tariff lists.

List 1 was enacted in July 2018 and imposed a 25 percent tariff on roughly $34 billion worth of imports. In August 2018, List 2 imposed 25 percent tariffs on roughly $16 billion worth of imports. List 3 covered roughly $200 billion worth of goods, applying a tariff of 10 percent starting in September 2018. Finally, in September 2019, List 4a tariffs of 15 percent were applied to $126 billion worth of imports from China, but was later modified to lower the tariff on those goods to 7.5 percent. Based on 2021 figures, the tariffs covered over $260 billion worth of imports and cost U.S. consumers $48 billion.[1]

Tariff Cost-burden by Census End-use Codes

This study calculates the additional cost burden associated with the Section 301 China tariffs tabulated by Census end-use categories. More specifically, this measure is defined as the specific cost burden of the tariffs for each Census end-use product category divided by the cost burden of the tariffs across all categories.[2] The U.S. Census Bureau divides end-use of imports into six categories: (1) food, feeds and beverages; (2) industrial supplies and materials; (3) capital goods, except automotive; (4) automotive vehicles, parts and engines; (5) consumer goods; and (6) other goods.[3] For the purpose of this analysis, the term intermediate goods refers to a sum of the industrial supplies and materials and the capital goods except automotive categories.[4] This analysis also equates consumer goods to finished goods, as they are directly used by consumers, rather than as inputs by manufacturers and other firms.

Table 1 lists the total dollar amount of goods imported to the United States from China in 2021 that are subject to Section 301 tariffs across all four lists, tabulated by Census end-use category. For example, the United States imported $38.7 billion worth of industrial supplies and materials from China that are subject to Section 301 tariffs. U.S. consumers paid $8.3 billion in Section 301 tariffs for these specific imports.

Table 1: Section 301 Imports by Census-defined End-use Import Categories, 2021 Levels (in billions)

Category	Total Imports 2021	Additional Cost Burden
Foods, feeds, and beverages	$4.3	$.915
Industrial supplies and materials	$38.7	$8.3
Capital goods, except automotive	$91.8	$17.9
Automotive vehicles, parts, and engines	$17.9	$4.2
Consumer goods	$112.5	$16.7
Other goods	$.187	$.017
Total	$265.4	$48.0

The United States imported $130.5 billion worth of intermediate goods from China subject to Section 301 tariffs in 2021 and U.S. consumers paid $26.2 billion in tariffs on these imports. Intermediate goods represent 49 percent of the total 2021 imports from China that were subject to 301 tariffs. The additional cost burden associated with intermediate goods is 55 percent of the total 2021 Section 301 additional cost burden, however. Even though intermediate goods represent a little less than half of the imports from China subject to 301 tariffs, they represent more than half of the additional cost burden since they are held in Lists 1 through 3, which have a 25 percent tariff rate compared to List 4a, and this list contains mostly consumer goods and has a 7.5 percent tariff rate. Finished goods represent about 35 percent of the additional cost burden. Table 2 contains these same calculations for each specific list. For example, over 90 percent of the cost burden for products on List 1 is for intermediate goods.

Table 2: Portion of Section 301 Tariffs Paid on Goods Imported from China by End Use and List, 2021 (by percent)[5]

Category	List 1	List 2	List 3	List 4a	Total
Foods, feeds, and beverages	0.0	0.0	2.7	0.9	1.9
Industrial supplies and materials	0.0	25.0	22.3	7.7	17.2

Capital goods, except automotive	90.9	61.0	27.5	27.5	37.3
Automotive vehicles, parts, and engines	7.8	0.6	11.3	1.6	8.7
Consumer goods	1.3	13.4	36.1	62.3	34.8
Other goods	0.1	0.0	0.0	0.2	0.0

Intermediate goods on List 2 represent 86 percent of the additional cost burden of the Section 301 tariffs. Nearly 50 percent of the tariff burden of List 3 is for intermediate goods. Only consumer goods on List 4a face a higher share of the tariff burden than intermediate goods.

Decreasing Costs and Increasing Competitiveness

Across all Section 301 China tariffs, intermediate goods represent 54.5 percent of the total additional cost burden of the tariffs, while finished goods represent 34.8 percent of the additional cost burden. For every dollar U.S. consumers paid on tariffs for finished goods, they paid $1.57 on tariffs for intermediate goods.[6] These figures show most of the tariffs apply to intermediate goods used by U.S. producers and manufacturers as inputs for their production processes. By increasing the price of businesses' inputs, and therefore increasing the cost of doing business, these tariffs make U.S. firms and manufacturers less competitive. In response, U.S. firms must either charge higher prices, decrease output, or forgo investments they otherwise would have made without the added cost of the tariffs. These tariffs therefore represent an opportunity cost for U.S. manufacturers that make them less productive and competitive. Lowering or removing the tariffs, especially on intermediate imports, would lower input costs for U.S. firms. In turn, they would be able to lower their prices, expand output, make more investments – such as capital purchases or hiring more workers – and engage in other activities that expand their competitiveness and ultimately lead to economic growth for the U.S. goods-producing sector and the economy as a whole.

Conclusion

President Trump began to impose tariffs on Chinese imports four years ago. Since taking office, President Biden has chosen to retain these tariffs. Using 2021 import figures, this study finds most of the additional cost burden of the tariffs are on goods that U.S. manufacturers import and use as intermediate inputs in their production processes. As a result, these tariffs have made U.S. firms and manufacturers less competitive by increasing the costs of doing business, and therefore reducing economic output and growth.

[1] From author's calculations using https://dataweb.usitc.gov/

[2] To achieve this measure, author collected 2021 import figures for products subjected to Section 301 tariffs from https://www.americanactionforum.org/research/the-total-cost-of-tariffs/ and https://dataweb.usitc.gov/. Using 10 digit hs (harmonized system) codes and 2021 levels of these imports, the author merged that data with a Census concordance file containing the associated Census end-use codes. These data were then merged with a Census file containing product descriptions with associated end-use codes. Finally, these data were then merged with the Census monthly international trade advance FT-900 which matches the product descriptions with the

Census end-use categories. The data was then tabulated by end-use category.

[3] https://www.census.gov/newsroom/blogs/global-reach/2012/03/end-use-trade-term-of-the-month-2.html

[4] The end use grouping used to calculate the tariff burden on intermediate goods is likely a conservative estimate given that some products in the automotive vehicles, parts and engines category contains some intermediate goods.

[5] Percentages may not add up to 100 due to rounding.

[6] Additional cost burden of intermediates divided by additional cost burden of finished goods ([$8.3 b + $17.9 b] / $16.7 b)