TradeTalk: Tariff tensions between the US and China continue

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The ongoing tariff war between the US and China continues, and looks set to do so for some time. Hopes of an economic detente between the two economic powerhouses appear slim, with the fresh imposition of tariffs from both Washington and Beijing.

Earlier this month, President Trump announced further US section 301 tariffs on the so called 'list 4' and the last remaining segment of Chinese originating goods not subject to additional tariffs from September 1st. With September fast approaching, it looked as though businesses and consumers would get a Christmas reprieve with the 10 per cent step up on many consumer goods deferred until 15 December 2019. However, with the announcement out of China of further tariffs on $75 billion of US goods, the US administration quickly retaliated by upping the list 4 increase from 10 per cent to 15 per cent while also committing to raise tariffs on a further $250bn of Chinese imports from 25 per cent to 30 per cent.

These adjusted tariff rates will be implemented from 1 October 2019 and are cumulative, meaning for apparel and garments where the MFN ('most favoured nation') tariff already sits at a high 16 per cent to 18 per cent depending on the specific goods, US importers are now facing a sky high tariff in excess of 30 per cent.

Outlook

These tariffs mean businesses face an increasingly uncertain trade landscape. The trade war has well and truly become a battleground of economic and political supremacy that neither the US or China are looking to settle soon. The consequences of the trade war are playing out on global markets with the ASX and other major stock markets experiencing heavy falls on Monday, following two weeks of retreat on the back of negative economic indicators out of the US and other markets. Many experts had tipped the increasingly concerning economic outlook would lead to a rebalancing of the relationship towards the end of last week but those sentiments dissipated on Friday and over the weekend.

Time to act

However, not all is lost. Businesses who take a proactive, rather than a reactive stance can limit their exposure in part through tactical measures, or entirely through more strategic approaches. Appropriate use of bonded warehouses, free trade zones and customs valuation on goods entering the US can help to provide some cash flow and direct duty relief. Meanwhile, in the midst of the trade war there are still major trading blocs signing preferential trade agreements which are opening up new markets as sources of supply and could be the catalyst for many businesses to consider a China exit strategy.

Let's talk

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