Trump 2.0 – Impact on Asia of a 60% Tariff Rate on China

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Report No. 193 (Trump 2.0 – Impact on Asia of a 60% Tariff Rate on China), which appeared in the June 27, 2024 issue of the IDE-JETRO *Policy Brief*, has been translated from the original Japanese by *Japan SPOTLIGHT* and is reprinted here with the author's permission. Though it was written before the US presidential election in 2024, we believe it would be useful to learn about the potential impact of tariff hikes envisaged by Trump 2.0.

Abstract

- If the US tariff rate on goods from China is raised to 60%, exports from China to the United States are expected to decrease significantly in "HS61-63: Clothing, etc.", "HS64-67: Footwear, hats, umbrellas", "HS83: Various base metal products", "HS95-96: Toys and miscellaneous goods", and other sectors.

- In these industries, exports from ASEAN countries to the US are expected to expand.

Former President Donald Trump and President Joe Biden will face off again in the November presidential election in the United States. Trump imposed additional tariffs on Chinese goods in phases in 2018 and 2019 during his previous administration (call it "Trump 1.0"). If he returns to office ("Trump 2.0"), he has already publicly stated that he will raise tariffs on China to 60% and on the rest of the world, including Japan, to 10%.

This paper discusses the potential impact on Asia of a 60% increase in the tariff rate on China. Based on the actual impact observed in Trump 1.0, we project a uniform increase to 60% in Trump 2.0 would, on average, double the range of additional tariffs in Trump 1.0, so the previous phenomenon may be more strongly manifested. For more on the impact of Trump 1.0, see IDE Square's Eye on the World report, "Review of the Trade Impact of the US-China Tariff War During Trump 1.0." The impact of the 10% tariff increase on countries other than China will not be covered here.

Impact on China

A 60% tariff rate on China will reduce the value of China's exports to the US, as in Trump 1.0. In Trump 1.0, the larger the additional tariff rate, the larger the decline in exports. If similar changes occur in Trump 2.0, it is easier to predict which items will actually cause China's exports to the US to decline more. In doing so, it is important to consider how much the tariff rate on China will increase under Trump 2.0 from the current running tariff rate and how large the share of imports from China is among US imports from the whole world at present. The larger both of these factors are, the larger the decline in exports to the US will likely be.

We will examine what industries have these two factors in large part. We define industries by their two-digit number in the trade commodity classification (HS code). And we define the difference between the US effective tariff rate on China at the end of 2021 and the new tariff rate resulting from a 60% hike as the additional tariff rate (percentage points) in Trump 2.0. We calculate this based on World Integrated Trade Solutions and the Official Gazette. We also calculate the share of US imports from China in 2021 as a percentage of total US imports from around the world (%). These are calculated at the 10-digit level of the US HS code and then simply averaged at the two-digit HS level. Trade data are obtained from the Global Trade Atlas.

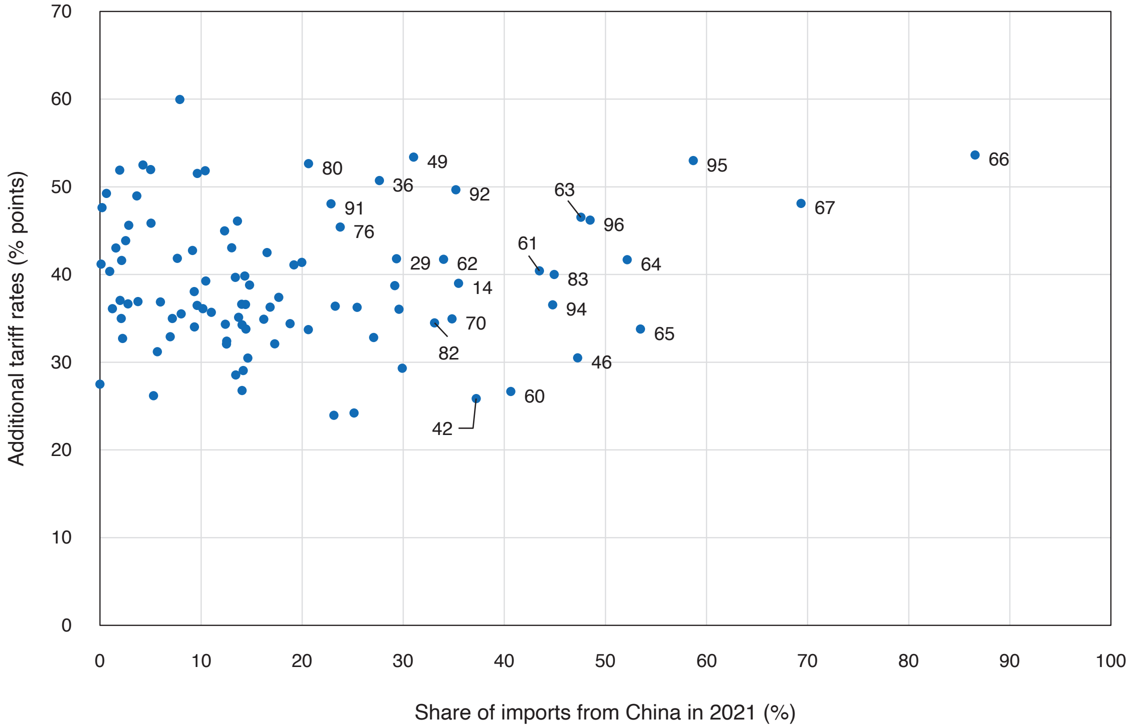
Chart 1 depicts a scatterplot of additional tariff rates and the share of import value from China in total US imports. The numbers in the figure are two-digit HS codes and are assigned only to those industries that are in the upper right-hand corner of the chart, i.e. those that are likely to see a greater decline in China's exports to the US. The most likely industries to see a large decline in Chinese exports are HS61-63: Clothing, etc., HS64-67: Footwear, hats, and umbrellas, HS83: Various base metal products of various kinds, and HS95-96: Toys and miscellaneous goods.

For better visual clarity, the product of these two factors multiplied together is shown in *Chart 2*. The larger this product is, the more likely it is to be located in the upper right-hand corner in *Chart 1*. Other than the above industries, the industries with higher products on average include "HS14: Plant-based braiding materials," "HS29: Organic chemicals," "HS36: Explosives," "HS46: Products of straw and other composition materials," "HS49: Printed matter," and "HS92: Musical instruments." The above industries that are prone to declining exports to the US are referred to as "export-declining industries".

Chinese exports to the US that have lost their way in this way may be headed outside of the US. Trump 1.0 is known to have increased

CHART 1

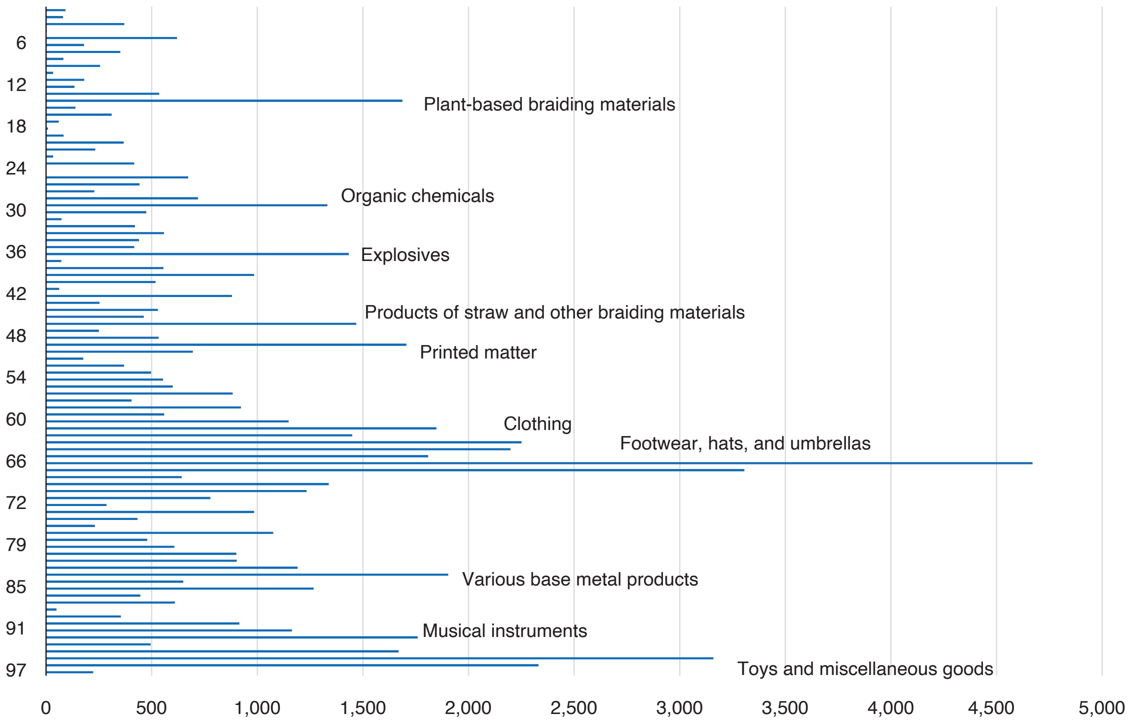
Additional tariff rates & share of imports from China by HS2 digits



Source: Calculations by the author

CHART 2

Product of additional tariff rates & share of value of imports from China



Source: Calculations by the author

Chinese exports to countries that are geographically closer, with higher incomes, and larger economies. If the same is true for Trump 2.0, we may see an increase in exports from China to East and Southeast Asia in export-declining industries.

Impact on East Asia

Next, we discuss the impact on East Asia. The impact of Trump 1.0 on Japanese and South Korean exports to the US has been minor, at least in the broadly defined machinery industry. This is probably because the main access to the US market by Japanese firms is through local production and sales, while Korean firms access the US market using Vietnam and other countries as export bases.

On the other hand, Taiwanese companies that have used their factories in China as export bases have been moving their factories back to Taiwan and relocating to ASEAN and India under Trump 1.0. As a result, exports from Taiwan to the US expanded. Trump 2.0 is expected to further accelerate this trend. In addition, the expansion of exports from Taiwan to the US may be accompanied by an increase in intermediate goods imports from China.

Impact on ASEAN

As in Trump 1.0, ASEAN countries (e.g., Thailand and Vietnam) will enjoy trade diversion effects in the US market. In particular, exports from ASEAN to the US are expected to increase, especially in industries with declining exports. In addition, Chinese firms in the same industries may expand their presence in ASEAN in order to avoid additional tariffs.

Under Trump 1.0, China's rerouted exports through ASEAN (e.g., Cambodia and Vietnam) became an issue. As US monitoring has been strengthened as a result of this, diverted exports may be limited under Trump 2.0. Also, as in Taiwan above, intermediate goods imports from China may expand as exports from ASEAN to the US increase.

Conclusion

In this paper, simple calculations have been used to identify industries with likely declining exports under Trump 2.0. In these industries, exports from China to the US are expected to decline, while exports from ASEAN countries and other countries are expected to expand. However, there is room for some improvements in the calculation methodology. In particular, the extent to which a 1% increase in tariff rates would reduce trade varies from item to item. Taking this into account would further improve the accuracy of identifying industries facing a likely decline in exports.

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