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INSIGHT

Escalating U.S. Tariffs: Affected Trade

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The trade practices of U.S. trading partners and the U.S. trade deficit are a focus of the Trump Administration. Citing these and other concerns, the President has imposed tariff increases under three U.S. laws:

- (1) Section 201 of the Trade Act of 1974 on U.S. imports of washing machines and solar products, due to concerns over their injurious effects on domestic U.S. industry;
- (2) Section 232 of the Trade Expansion Act of 1962 on U.S. imports of steel and aluminum, and potentially motor vehicles and titanium sponge, due to concerns that imports threaten to impair the national security; and
- (3) Section 301 of the Trade Act of 1974 on U.S. imports from China, due to concerns over intellectual property rights and other practices, on U.S. imports from the European Union (EU) due to concerns over subsidies on the manufacture of large civil aircraft, and potentially on U.S. imports from France due to concerns over its digital services tax (DST).

In May 2019, in response to concerns over immigration, the President also proposed an additional 5% tariff on imports from Mexico under the International Emergency Economic Powers Act (IEEPA), but subsequently suspended such action. This product focuses on unilateral U.S. tariff actions, and does not include Section 301 tariffs related to the large civil aircraft dispute with the EU, which were authorized by a WTO dispute settlement panel. For a timeline of recent actions, see CRS Insight IN10943, *Escalating U.S. Tariffs: Timeline*. The Administration has stated that it is using existing and proposed tariffs for a range of purposes, including as leverage for trade negotiations. While tariffs may benefit some import-competing firms, they also increase costs for downstream users of imported products and consumers, and may have broader negative economic effects and other policy implications.

The multiple tariff increases to date, ranging from 10% to 45%, affect approximately 16% of U.S. annual imports. This amounts to $396.4 billion of imports (2018 data), with Section 301 tariffs on U.S. imports from China accounting for more than 90% of the trade affected (**Figure 1**). While the Administration has taken some steps to reduce the scale of imports affected (i.e., by exempting Canada and Mexico from the steel and aluminum duties and excluding certain products), the general trend has been an escalation of tariff actions. For example, in May 2019, the Administration increased Section 301 tariffs on nearly $200 billion of imports from China (stage 3), from 15% to 25%, and in September, imposed new tariffs of 15%

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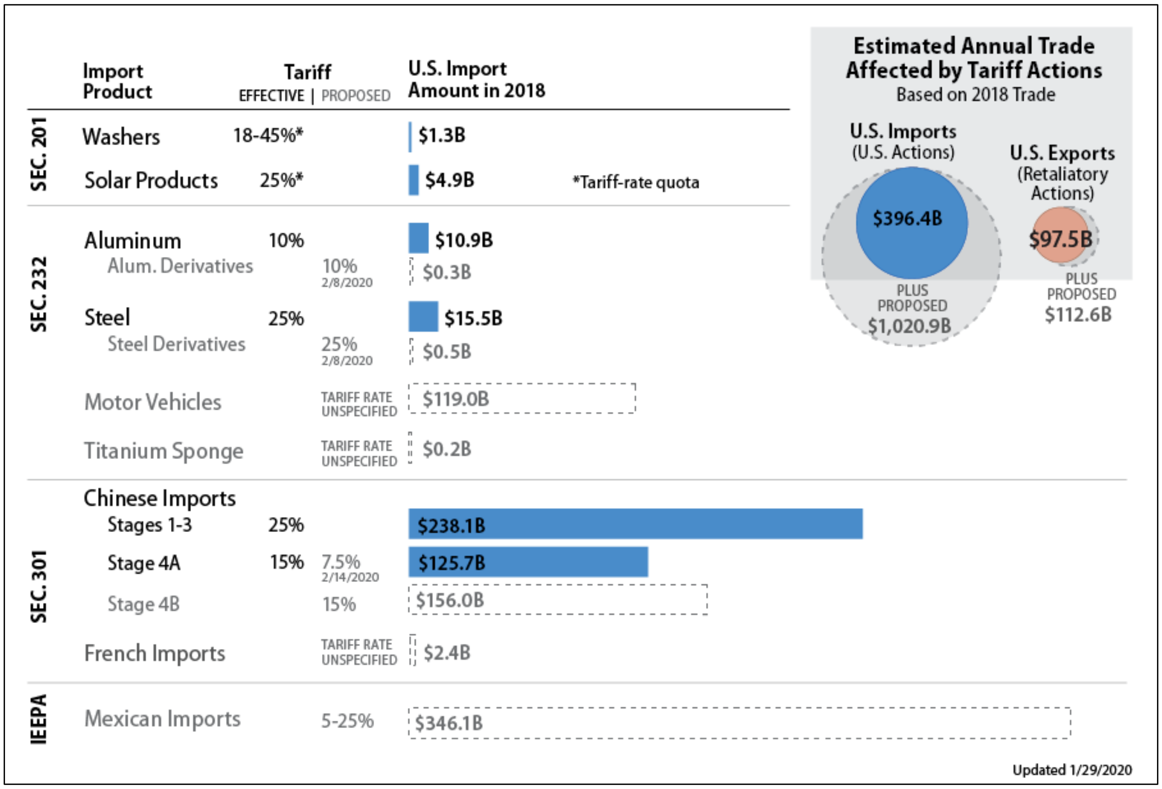
on an additional $126 billion in Chinese imports (stage 4A). Even in light of the newly signed U.S.-China "phase one" trade agreement, the majority of tariff increases remain in place (see below).

The Administration has proposed other actions that would expand the share of U.S. trade potentially affected. The President has declared U.S. motor vehicle imports, particularly from the EU and Japan, a national security threat under Section 232, granting him the authority to impose tariff increases on such imports, and has proposed up to 100% tariffs on select French goods, after a Section 301 investigation into France's digital services tax. The President has also proposed, but now indefinitely suspended, an additional 5% to 25% tariff on all imports from Mexico, as well as tariffs on the remaining $156 billion of imports from China, mostly consumer goods, not yet affected by Section 301 duties (stage 4B). The President has also issued a proclamation, effective February 8, 2020, expanding the scope of the steel and aluminum tariffs to include certain derivative products, such as nails or certain car parts. In total, these proposed actions, together with those already implemented, would potentially affect over $1 trillion or 40% of U.S. annual imports.

Three recent events, however, suggest a potential reduction to the threat of further escalation. On January 15, 2020, the Administration signed a phase one trade deal with China, with the intent of resolving some of the trade and investment issues of concern. Leading up to this agreement, the United States announced its intent to reduce stage 4A tariffs on imports from China from 15% to 7.5%, and both sides suspended proposed tariff increases planned for December 2019. While the agreement does not commit either side to reduce tariffs further, it requires China to purchase $200 billion of additional U.S. exports over two years, which may involve product-specific tariff exemptions. Also in January, the "stage one" U.S. trade agreements with Japan entered into force, which do not directly address auto trade but likely lessen the prospect of new tariffs on U.S. auto imports from Japan. Most recently, news reports suggest a temporary pause to the dispute between the United States and France, as France postponed implementation of its digital services tax.

Figure 1. Trump Administration Tariffs and Affected Trade



Sources: CRS calculations with data from U.S. Census Bureau sourced through Global Trade Atlas.

Notes: Based on annual 2018 import values. Excludes exempted countries. Motor vehicle and parts import figure includes only U.S. imports from the European Union and Japan, which were the focus of the President's proclamation declaring motor vehicle imports a national security threat. Tariff-rate quotas (TRQs) are a form of import restriction in which one tariff applies up to a specific quantity or value of imports and a higher tariff applies above that threshold.

As tariffs act as a tax on foreign-produced goods, they distort price signals, potentially leading to less efficient consumption and production patterns, which may ultimately reduce growth rates. As of January 23, 2020, the United States collected $54 billion from the additional taxes paid by U.S. importers, according to U.S. Customs and Border Protection. These taxes have had a negative aggregate effect on the U.S. manufacturing sector with increased input costs offsetting the gains from increased protection, according to preliminary analysis from researchers at the U.S. Federal Reserve Board. Increasing tariffs also creates greater economic uncertainty, potentially dampening business investment and creating a further drag on growth. Preliminary research, for example, suggests the increase in trade policy uncertainty may have reduced aggregate U.S. investment by 1% or more in 2018. Estimates of the tariffs' overall economic effects vary, depending on modeling assumptions and the specific set of tariffs considered. Most studies, however, predict declines in GDP growth: the Congressional Budget Office estimated that the tariffs currently in effect would lower U.S. GDP by 0.5% in 2020, below a baseline without the tariffs, while raising consumer prices by 0.5%, thereby reducing average real household income by $1,277. From a global perspective, the IMF estimated that the tariffs would reduce global GDP in 2020 by 0.8%.

Retaliation amplifies the potential negative effects of the U.S. tariff measures. It broadens the scope of U.S. industries potentially harmed, by making targeted U.S. exports less competitive in foreign markets. U.S. exports of targeted industries have declined, with U.S. agricultural exports subject to retaliation down 27% in 2018, compared to 2017. Some U.S. manufacturers are shifting production to other countries to avoid the tariffs on U.S. exports. Retaliatory tariffs in place in response to both Section 232 and Section 301 actions, cover approximately $97.5 billion of U.S. annual exports (2018 data (**Table 1**)). If China follows through with its purchase commitments in the phase one deal, it could lessen or reverse the export declines related to the impact of the retaliatory tariffs for certain industries. China, like the United States has also granted limited tariff exclusions, lessening somewhat the scale of U.S. exports affected.

Table 1. Retaliatory Actions in Effect

	Retaliatory Trade Action	Affected U.S. Exports (millions, 2018)	Additional Tariff	Effective Date
Section 232	EU	$2,890	10-25%	June 25, 2018
	China	$2,522	15-25%	Apr. 2, 2018
	Turkey	$1,771	4-70%	June 21, 2018
	India[a]	$1,392	10-50%	June 16, 2019
	Russia[b]	$431	25-40%	Aug. 6, 2018[c]
	Total Exports Affected by Section 232 Retaliation	**$9,006**		
Section 301	China—Stage 1[c]	$12,896	25%	July 6, 2018
	China—Stage 2[c]	$11,595	25%	Aug. 23, 2018
	China—Stage 3[c,d]	$59,700	5-10%/ 5-25%	Sept. 24, 2018/ June 1, 2019
	China—Stage 4A[e]	$25,463	5-10%	Sept. 1, 2019
	China—Stage 4B[e] (proposed)	$41,791	5-10%	suspended
	China—Reinstated Auto Tariffs (proposed)	$11,720	5-25%	suspended
	Total Exports Affected by Section 301 Retaliation[f]	**$91,055**		
	Total and Proposed Exports Affected by Section 301 Retaliation[f]	**$106,122**		
Overall Total Exports Affected by Retaliation[g]		**$97,539**		
Overall Total and Proposed Exports Affected by Retaliation[g]		**$112,606**		

Sources: CRS calculations based on import data of U.S. trade partner countries sourced from Global Trade Atlas and tariff details from WTO or government notifications.

Notes: Canada and Mexico withdrew their retaliation after the Trump Administration exempted both countries from the Section 232 duties.

a. India's retaliatory tariffs were announced in June 2018, with tariffs ranging from 10%-50%, but were repeatedly postponed. India's latest announcement appears to remove 2 of the 30 products from its initial list and may affect retaliatory tariff rates.

b. Russia published its list of retaliatory tariff rates and products on July 6, 2018, which appear to have gone into effect within 30 days of publication.

c. Export calculation excludes auto tariffs suspended indefinitely.

d. China's retaliatory tariffs in response to U.S. stage 3 Section 301 tariffs initially ranged from 5-10%. In response to the Administration's increase of Section 301 stage 3 tariffs to 25% on May 10, China increased its retaliatory tariffs on certain products to 20% and 25%.

e. China's Stage 4 retaliation includes tariffs on new products and increases tariff rates on other products already subject to retaliatory tariffs. Stage 4B tariffs were originally scheduled to go into effect on December 15, 2019, but were suspended in advance of the U.S.-China phase one agreement.

f. Total exports adjusted to account for tariff lines affected by multiple stages of China's retaliation to Section 301 tariffs.

g. Total exports adjusted to account for tariff lines affected by China's retaliation to both Section 232 and Section 301 tariffs.

Many Members of Congress, U.S. businesses, interest groups, and trade partners have weighed in on the President's actions. While some U.S. stakeholders support the use of unilateral trade actions to level the playing field for U.S. firms, many have raised concerns, including the chair of the Senate Finance Committee, who stated that the President's proposed tariffs on Mexico, for example, are a "misuse of presidential tariff authority." Several Members have introduced legislation that would constrain the President's authority (e.g., H.R. 723, S. 287, S. 365, and S. 899), while other Members and the Administration have advocated for increasing this authority (e.g., H.R. 764). As debates continue, Congress may consider the following:

- **Delegation of Authority**. Among these statutes, only Section 201 requires an affirmative finding by an independent agency (the ITC) before the President may restrict imports. Section 232 and Section 301 investigations are undertaken by the Administration, giving the President broad discretion in their use. Members of Congress have sought clarification on the Administration's Section 232 investigation process, and some take issue with the President's refusal, based on a Justice Department determination, to publicly release the Section 232 report on motor vehicles, despite legislation to that effect. Are additional congressional checks on the Administration's discretion necessary?
- **Economic Implications and Escalation**. The Administration's tariffs imposed to date cover 16% of annual U.S. goods imports; proposed tariffs could potentially increase this to 40%. Negative effects of the tariffs may be substantial for individual firms reliant either on imports subject to the U.S. tariffs or exports facing retaliatory measures. Most studies suggest the tariffs now in effect will reduce U.S. and global economic growth. What are the Administration's ultimate objectives from the tariff increases and do potential benefits justify potential costs?
- **International Trading System and U.S. Foreign Relations**. While the Administration argues that the imposition of U.S. import restrictions is within its rights under international trade agreement obligations, including at the World Trade Organization (WTO), U.S. trading partners disagree and have initiated dispute proceedings, and begun retaliating. The United States has initiated its own dispute proceedings, arguing that retaliatory countermeasures violate trade agreement obligations. What are the risks to the international trading system and to broader U.S. foreign policy goals of continued unilateral action and economic confrontation?

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