

China Research

Donald Straszheim
310-473-4051
Donald.Straszheim@evercoreisi.com

Neo Wang
310-473-2938
Neo.Wang@evercoreisi.com

Gin Wang
310-473-6568
Gin.Wang@evercoreisi.com

China Tariff Retaliation -- Up to Date

Ministry of Finance just announced tariff hikes on their imports from the US, to be effective Jun 1, not immediate. The Jun 1 date is to match the US tariffs on imports from China hiked on May 10 at 1201 a.m. but exempting items in transit to the US at that time provided they do not arrive in the US until June 1, 2019.

List by new tariffs imposed by China (MoF) by Harmonic Tariff Schedule (HTS) codes, and in Chinese only. We in process of translation. Here, relevant perspective.

See the page titled "Timelines of US Sec. 301 Tariff against China."

- The US proposed 'Round 3' tariffs at a 10% rate on July 10, 2018.
- US said be 25% rate instead of 10% rate on August 1, 2018. These tariffs on \$60 bln of imports.
- US implemented 10%, not 25% on Sep 24, 2018.
- China announced following tariff schedule m that date. 10% on 2493 items. 10% on 1078 n items. 5% on 974 items and 5% on 662 items. These as retaliation against the US 10% tariff rate on \$200 bln of US imports from China.
- US on May 10, 2019 raised tariff rate from 10% to 25% on \$200n bln of imports from China.
- Today, May 13, China retaliated by raising China tariff rates as follows. 25% on 2493 items. 20% on 1078 items. 5% on 974 items. 5% on 595 items.
- Only difference is last category, hikes on 595, not on 662 items.

Also see the page titled "US Section 301 Actions – and China Responses", which delineates current China tariffs against US exports to China.

We expect China to not tariff those items from the US which they need as #1 supplier.

We will update as more information becomes available.

Bottom line – we expect an extended conflict.

Timelines of US Sec. 301 Tariff against China

Round 1	2018/04/03	25% for Initial \$50 bln (on 1333 items)
	2018/04/23	Due date for filing requests to appear and a summary of expected testimony at the public hearing and for filing pre-hearing
	2018/05/11	Due date for submission of written comments.
	2018/05/15	The Section 301 Committee will convene a public hearing in the main hearing room of the U.S. International Trade Commission, 500 E Street SW Washington DC 20436 beginning at 10:00 am.
	2018/05/15-17*	
	2018/05/22	Due date for submission of post-hearing rebuttal comments.
	2018/06/15	Announcement of finalization
	2018/07/06	Effective on \$34 bln (on 818 items)
Round 2	2018/06/15	25% for New \$16 bln (on 284 items)
	2018/06/29	Due date for filing requests to appear and a summary of expected testimony at the public hearing and for filing pre-hearing
	2018/07/20	Due date for submission of written comments.
	2018/07/24	The Section 301 Committee will convene a public hearing in the main hearing room of the U.S. International Trade Commission, 500 E Street SW Washington, DC 20436 beginning at 9:30 a.m.
	2018/07/24-25*	
	2018/07/31	Due date for submission of post-hearing rebuttal comments.
	2018/08/07	Announcement of finalization
	2018/08/23	Effective on "approximately \$16 bln" (on 279 items)
Round 3	2018/07/10	10% for New \$200 bln (on 6031 items)
	2018/08/01	25% instead of 10%
	2018/07/27	Due date for filing requests to appear and a summary of expected testimony at the public hearing, and for filing pre-hearing
	2018/08/13*	
	2018/08/17	Due date for submission of written comments.
	2018/08/20-23	The Section 301 Committee will convene a public hearing in the main hearing room of the U.S. International Trade Commission, 500 E Street SW, Washington DC, 20436 beginning at 9:30 am.
	2018/08/20-24, and 27*	
	2018/08/30	Due date for submission of post-hearing rebuttal comments.
	2018/09/06*	
	2018/09/17	Announcement of finalization
	2018/09/24	10% effective on "roughly \$200 bln" (on 5745 items)
	2019/01/01	25% instead of 10% (conditional on 'deal' or not)*
	2019/03/02*	
	2019/03/01	10% until further notice.

Note: * - updated.

US Section 301 Actions – and China Responses

Summary of China 's Extra 25% Tariffs on Imports from the U.S.	
Round 1 (Effective 2018-07-06)	Round 2 (Effective 2018-08-23)
Beef, Pork, Poultry, Seafoods	Fishmeal
Dairy Products	Waste from Metal Smelting
Vegetables	Coal, Coke, Coal Gas, Coal Tar, Coalchem Prod.
Fruits and Nuts	Refined Petroleum Oils
Wheat, Corn, Rice, Sorghum	Petroleum Gases, other than LNG
Soybeans	Petroleum Wax, Coke, Bitumen, Shale, Sand
Vege Feed	Organic Chemicals
Prepared Meat/Seafoods	Surface-active Agents, Lubricants, Adhesives
Cranberries	Plastics, Rubber (small part of)
Orange Juice	Waste and Scrap (all kinds)
Denatured Alcohol	All-terrain/Snow Travelers, Golf Carts
Whiskey	Tractors, Trailers, Semi-trailers, Mobile Cranes
Brewing or Distilling Dregs and Waste	Trucks, Buses, Sedans, SUVs, Vans
Dog and Cat Foods	Motorcycles, Bicycles, Strollers, Parts
Tobacco, Cigars, Cigarettes, Waste, Concentrate	Optical Fibers, Bundles and Cables
Uncombed Cotton	MRI & X-ray Sets, Monitors, Ophthalmic Tools
SUVs, Vans, Pick-ups, Hybrid Vehicles and EVs	Electrical Apparatus
545 Items, \$34 Bln	333 Items, \$16 Bln

Source: MoCom, MoF

Product Categories NOT in China \$110 bln Tariffs Lists (34+16+60)

Rank	HS-Code	Name	mln USD
1	880240	Airplane & Ot A/c, Unladen Weight > 15,000 Kg	13,127
2	270900	Crude Oil From Petroleum And Bituminous Minerals	4,401
3	854231	Processors And Controllers, Electronic Integ Cirt	3,106
4	848620	Machines For Man. Semiconductor Devices/elec Ic	2,004
5	854239	Electronic Integrated Circuits, Nesoi	1,210
		All Others	10,391
		Total (an underestimate due to data availability)	34,239

China tariff responses to US

NOTE. US says its exports to China were \$130 bln in 2017. China says \$155 bln. Different accounting, reporting.

- Top 2 tables China tariffing \$34 bln and \$16 bln of imports from the US.
- Middle table are items China imports from the US that it has **NO CURRENT PLANS for tariffing. May 10, 2019 -- expect these to remain untariffed.**
- Thus there exists a 'long' table (not shown here)(\$60 bln) which would include all other China imports from the US that are also tariffed at average 10% rate since Sep 24, 2018. **Ask us.**

China - Extended Conflict, No Quick Resolution

Here, where we stand. Keep up with Trump tweets; enlightening.

US to proceed on higher tariffs on China.

We expect DC to proceed on tariffing 'all.' Process take several weeks. No reason to delay (Trump -- tariffs make us 'stronger'). Reduces quick breakthrough chances.

Minus for China's economy.

Will hurt China's push for stronger growth. No downward revision to forecast yet. Raises chances of further stimulus to protect growth. Hurts domestic equities.

US - China fight will slow global investment commitments.

Direct investment in China from US and elsewhere nearly frozen with trade war escalating. Global firms don't know where to invest, produce, hire and source?

Yes, China will retaliate.

Not stand idly by but few new products to tariff. Some not tariff as China values their access. Doubt state-sponsored boycotts. More non-tariff barriers. As they choose.

Talks will resume, no timetable.

Minister level (both sides) have direction from presidents – now sharply at odds. Meets DC, May 9-10, ritualistic. Remain rituals until leaders decide otherwise.

G20 meetings, Osaka, Jun 28-29, resolution unlikely.

Neutral territory, but chances of an 'agreement in principle' now low with magnified differences. Expect constructive words; no movement.

On subsequent pages – clients questions (here answers)

- **What China is currently tariffing (p. 2).** Almost everything from US with exception of Panel "C" – products China wants (US the preferred/best/only supplier).
- **What US is currently tariffing (p.3).** Rounds 1, 2 and now #3 at 25% rate.
- **What US upcoming tariffs would cover (p.4).** In 'Remaining to Tariff' box.

General Disclosures

This report is approved and/or distributed by International Strategy & Investment Group LLC ("ISI Group LLC"), a U.S. licensed broker-dealer regulated by the Financial Industry Regulatory Authority ("FINRA") and by International Strategy & Investment Group (UK) Limited ("ISI UK"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority. The institutional sales, trading and research businesses of Evercore Group and ISI UK collectively operate under the global marketing brand name Evercore ISI ("Evercore ISI"). Both Evercore Group and ISI UK are subsidiaries of Evercore Partners Inc. ("Evercore Partners"). The trademarks, logos and service marks shown on this report are registered trademarks of Evercore Partners Inc.

This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. The information and opinions in this report were prepared by registered employees of Evercore ISI. The information herein is believed by Evercore ISI to be reliable and has been obtained from public sources believed to be reliable, but Evercore ISI makes no representation as to the accuracy or completeness of such information. Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Evercore and are subject to change without notice. In addition, opinions, estimates and projections in this report may differ from or be contrary to those expressed by other business areas or groups of Evercore and its affiliates. Evercore ISI has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Facts and views in Evercore ISI research reports and notes have not been reviewed by, and may not reflect information known to, professionals in other Evercore affiliates or business areas, including investment banking personnel.

Evercore ISI does not provide individually tailored investment advice in research reports. This report has been prepared without regard to the particular investments and circumstances of the recipient. The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. Securities and other financial instruments discussed in this report, or recommended or offered by Evercore ISI, are not insured by the Federal Deposit Insurance Corporation and are not deposits of or other obligations of any insured depository institution. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from the financial instrument, and such investor effectively assumes such currency risk. In addition, income from an investment may fluctuate and the price or value of financial instruments described in this report, either directly or indirectly, may rise or fall. Estimates of future performance are based on assumptions that may not be realized. Furthermore, past performance is not necessarily indicative of future performance.

Evercore ISI salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed in this research. Our asset management affiliates and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

Electronic research is simultaneously available to all clients. This report is provided to Evercore ISI clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Evercore ISI. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion or information contained in this report (including any investment recommendations, estimates or target prices) without first obtaining express permission from Evercore ISI.

This report is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

For investors in the UK: In making this report available, Evercore makes no recommendation to buy, sell or otherwise deal in any securities or investments whatsoever and you should neither rely or act upon, directly or indirectly, any of the information contained in this report in respect of any such investment activity. This report is being directed at or distributed to, (a) persons who fall within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order")); (b) persons falling within the definition of high net worth companies, unincorporated associations, etc. (set out in Article 49(2) of the Order); (c) other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This report must not be acted on or relied on by persons who are not relevant persons.

Applicable current disclosures regarding the subject companies covered in this report are available at the offices of Evercore ISI, and can be obtained by writing to Evercore Group LLC, Attn. Compliance, 666 Fifth Avenue, 11th Floor, New York, NY 10103.

In compliance with the European Securities and Markets Authority's Market Abuse Regulation, a list of all Evercore ISI recommendations disseminated in the preceding 12 months for the subject companies herein, may be found at the following site:
<https://evercoreisi.mediasterling.com/disclosure>.

© 2019. Evercore Group L.L.C. All rights reserved.