Impacts of Section 301 Tariffs on Imports from China:

Case Studies of Apparel, Footwear, Travel Goods and Furniture

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Prepared by

Trade Partnership Worldwide, LLC

At the Request of:

American Apparel & Footwear Association

FDRA Footwear Distributors & Retailers of America

NRF National Retail Federation

Retail Industry Leaders Association

United States Fashion Industry Association

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Executive Summary

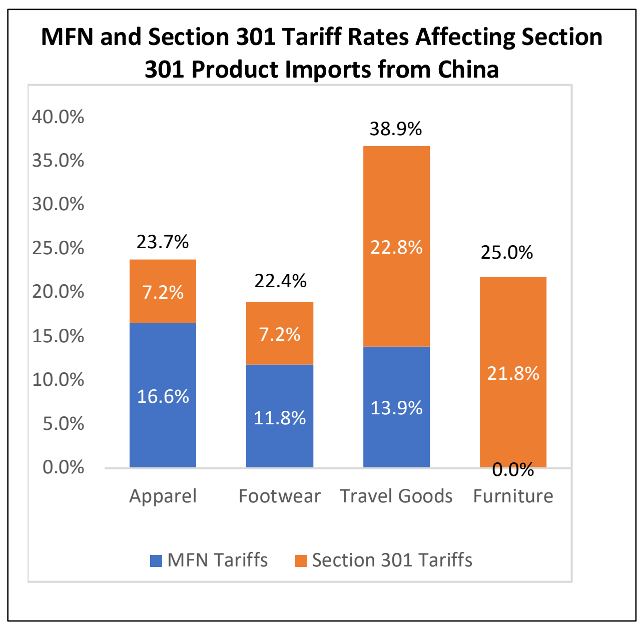
In August 2017, the United States began an investigation under Section 301 of the Trade Act of 1974 of China's technology and intellectual property related practices that the United States believed adversely affected U.S. businesses. In 2018 the United States concluded that China was failing to make changes to those policies and practices and that punitive tariffs of up to 25% should be imposed.

Along with many raw materials and industrial products, thousands of tariff lines for consumer goods were included on the tariff lists. With few exceptions, those tariffs continue to affect imports of these products to this day; direct tariff costs to date exceed $166 billion. Of particular interest to American families are Section 301 tariffs applied to U.S. imports from China of apparel, footwear, travel goods and furniture, which were first imposed in 2018 and 2019.

This report provides an in-depth assessment of the impacts of the Section 301 tariffs over the last four years on imports of apparel, footwear, travel goods and footwear imported from China. It is based on U.S. government data amplified by responses to a December 2022 survey of companies sourcing those goods from China. Key results include:

- The Section 301 tariffs on apparel, footwear, travel goods and furniture imported from China had very little negative impacts on Chinese producers, who managed to maintain most of their business with U.S. customers. U.S. manufacturers and their workers did not benefit. Instead, the negative impacts – higher costs and higher prices – fell on U.S. companies and other U.S. consumers – American families.

- In addition to the tariffs themselves, the Section 301 tariffs applied to consumer goods imported from China have had a host of significant indirect costs that have found their way into prices or have proven to be hits to the companies' bottom lines. These include higher costs associated with: shifting — or trying to shift — sourcing out of China to other countries, including the United States; higher overhead; uncertainty surrounding the tariff exclusion process; and the need to establish bifurcated supply chains.



- The higher costs from the tariffs themselves as well as the indirect costs associated with them have found their way into the retail prices of apparel, footwear, travel goods and furniture, compounding the problem that for most of these goods, U.S. MFN tariffs are among the highest in the tariff schedule. Increased prices for these goods have had a greater negative impact on households for which those goods represent greater shares of household income: households in the lowest 20% of income groups; minority-headed households, and those headed by individuals without a college education.

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I. Introduction

American brands and retailers and their employees who provide consumer goods to American families have been on the front lines of managing the higher costs triggered by the Section 301 tariffs assessed on imports from China more than four years ago.[1] The tariffs have been universally disruptive to their businesses and customers. They have added directly, and indirectly, to the cost of goods imported from China. In addition, a host of other indirect costs that the tariffs have imposed on U.S. importers add to their burden and have affected trade and prices.

This study reviews the variety of costs associated with the Section 301 tariffs that have impacted four broad categories of consumer goods: apparel, footwear, travel goods and furniture. We begin with a discussion of the tariffs' direct impacts on the costs of imported products from China. We then describe the indirect costs that have also impacted the cost (and price) of those goods. Finally, we discuss how higher costs that find their way into retail prices have likely impacted consumers, focusing on households headed by lower income individuals, minorities and those without a college degree. Our analysis is based on U.S. government data as well as direct input from a variety of companies who source goods from U.S. and global suppliers. While a number of events have upended sourcing of these goods over the last four years (notably Covid-19 and the ensuing supply chain disruptions), the tariffs on imports from China have added importantly to the mix.

II. Tariff Costs

In general, when the Section 301 tariffs were first imposed on consumer goods imported from China in 2018 and 2019, American companies sourcing those goods scrambled to deal with the sudden added costs. In most cases, it was not possible for buyers to demand their Chinese suppliers absorb the additional tariff costs, especially since contracts and prices were set months before the tariffs took effect. Similarly, many importers, wholesalers and retailers believed American consumers (households) would not pay the additional duties either. Further, many American companies believed the tariffs – and therefore added costs – would be temporary. So, American companies (importers, wholesalers, retailers) in the import supply chain absorbed the tariffs. Over time, this absorption became unsustainable for many and some or all of the tariff costs were passed on to final consumers. The ability to do this varied

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1 For details, see Office of the United States Trade Representative, https://ustr.gov/issue-areas/enforcement/section-301-investigations/section-301-china.

considerably with the product and the ultimate buyer.

Much changed with the phenomenal boost in demand for goods that happened with the beginning of the pandemic in 2020. Demand soared for apparel, footwear, and furniture — among many other goods subject to the tariffs — as households working from home fueled with new income from government support payments took to the internet and began to buy. Many categories of imports from China have been rising since 2020 despite the Section 301 tariff costs. In some cases, capacity constraints in other countries prevented further sourcing moves out of China. In other cases, imports from third countries and China are both rising, as there is simply too much demand to satisfy without increased purchases from China. As a result, Section 301 tariff costs are at their highest levels yet. To date, U.S. Customs and Border Protection (CBP) has collected over $166.6 billion[2] from U.S. importers for all products covered by the tariffs.

Importantly, in this environment more of the tariff costs — indeed, higher costs generally from internationally sourced goods — could be passed on to final consumer prices. It is difficult to estimate what shares of the rising prices for these goods post-April 2020 are due to the tariffs on imports from China and what shares are due to supply chain-induced cost increases or demand-fueled inflation. However, arguments that tariffs did not lead to inflation in 2018/2019 are not relevant today.

The impacts of the tariffs on U.S. companies sourcing apparel, footwear, furniture and travel goods to American families varied with the product and the buyer (producer, importer, wholesaler, retailer, final consumer). The balance of this section details the impacts for each of these four categories of consumer goods, pulling from official U.S. government data as well as company responses to a survey sent to over 500 importers, wholesalers and retailers in December 2022.

A. Apparel

List 4A imposed Section 301 tariffs of 15% on a large share of total apparel imported from China on September 1, 2019. Those tariffs were later reduced on February 14, 2020, to 7.5%.[3] The tariffs affected nearly 90% of apparel imported from China. They imposed an annual direct cost on importers of over $1 billion, escalating every year. Very few apparel tariff exclusions have succeeded in mitigating the negative impacts of the tariffs on apparel sourcing companies. According to data from Mercatus Center, of 1,290 apparel product exclusion requests filed, only 69 (5%) were approved; 1,221 (95%) were denied.[4]

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[2] U.S. Customs and Border Protect, "rade Statistics," https://www.cbp.gov/newsroom/stats/trade.

[3] For a summary of the Section 301 tariff timeline, see Congressional Research Service, "Escalating U.S. Tariffs: Timeline," updated January 29, 2020, https://sgp.fas.org/crs/row/IN10943.pdf.

[4] Unpublished data from Quantgov, Mercatus Center, George Mason University and calculations by Christine McDaniel, https:/www.grantgove.org/tariffs#section-301.

The tariffs reduced sourcing from China of apparel, dropping the share of total apparel products imported from the world from one-third of total imports to just 22% in 2022.[5] Some apparel sourcing moved to other foreign manufacturers, a trend that began for a variety of reasons before the imposition of the Section 301 tariffs, but which accelerated after they were imposed in 2019. Imports from China subject to Section 301 tariffs dropped by $5.8 billion from 2018 (before the tariffs were applied) to 2022, while imports of those same products from other countries increased by $21 billion. Vietnam (+$5.4 billion), Bangladesh (+$4.0 billion), Cambodia (+$1.9 billion) and India (+$1.8 billion) saw the biggest increases over that period.

Apparel Imports (HTS Chapters 61, 62)

(Millions and Percent)

		2017	2018	2019*	2020	2021	2022 Est.
1	Total apparel imports from China	$27,151.0	$27,935.1	$25,686.6	$18,731.3	$20,533.6	$22,409.7
2	China's share of apparel imports from world	34%	33%	30%	27%	25%	22%
3	Section 301 apparel imports from China	$25,005.8	$25,575.3	$23,257.5 $6,730.0 (S-D)	$16,713.2	$18,120.3	$19,780.6
4	Estimated Section 301 tariffs paid	n.a.	n.a.	$927.49	$1,134.9	$1,249.4	$1,414.6
5	Section 301 imports' share of total apparel imports from China (line 3 as a share of line1)	92%	91%	90% (26% S-D)	89%	88%	88%
6	Section 301 apparel items imported from other countries	$52,839.0	$56,414.8	$59,556.5	$49,785.2	$62,758.6	$77,612.8

* Section 301 tariffs first imposed September 1, 2019. "S-D" = September to December.
Note: 2022 Est. covers December 2021 through November 2022.
Source: Trade Partnership Worldwide LLC from U.S. Census data.

U.S. apparel producers did not benefit from a return of sourcing to the United States. Chart 1 shows that U.S. apparel manufacturers' shipments dropped precipitously after the tariffs were imposed, even before the Covid-19 pandemic shutdown closed factories. U.S. apparel employment data confirm that the tariffs had no net positive impact on U.S. manufacturers or their employees (Chart 2). The steady decline in U.S. apparel employment was not arrested, even slightly, by the imposition of Section 301 tariffs on imports from China in September 2019.

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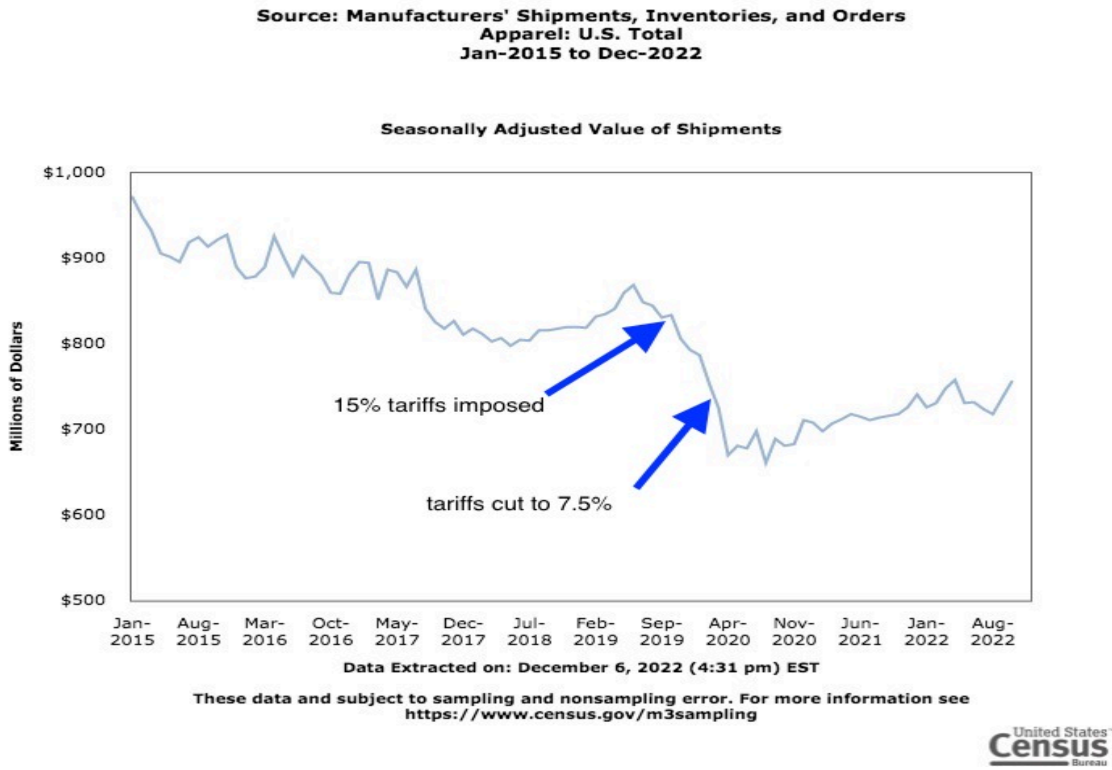
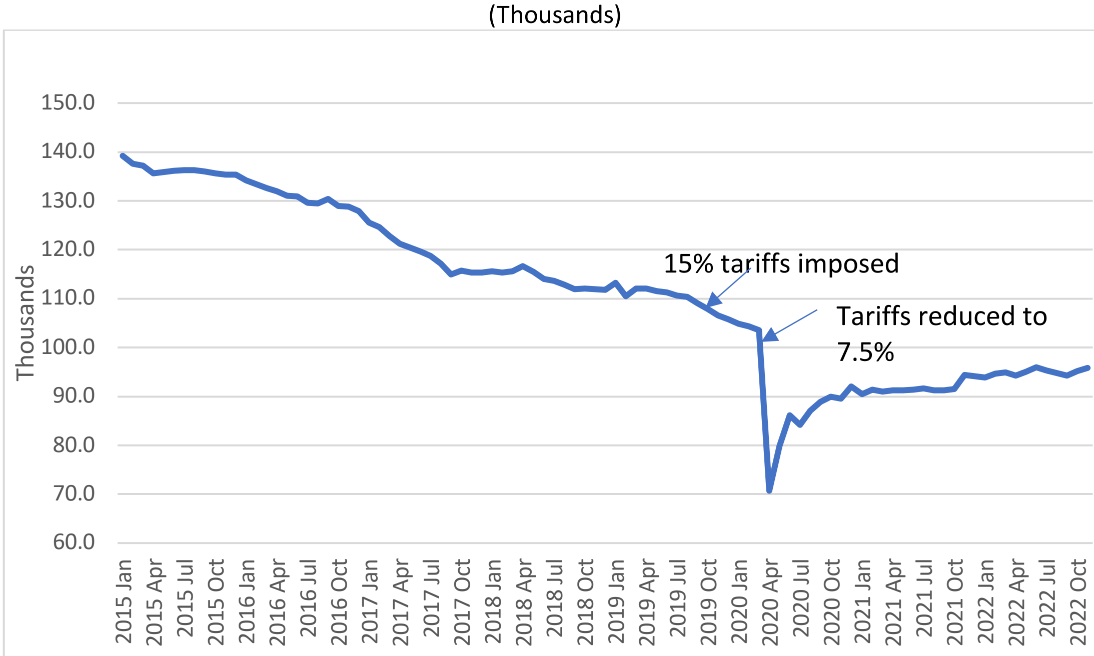
5 This study uses the most-recent 12-month period (i.e., November 2021-October 2022) for "2022."

Chart 1



Source: U.S. Census Bureau, "Manufacturers' Shipments, Inventories & Orders," https://www.census.gov/manufacturing/m3/historical_data/index.html.

Chart 2
U.S. Apparel Manufacturing Employment, Monthly, 2015-2022
Seasonally Adjusted
(Thousands)



Source: Bureau of Labor Statistics, "Employment, Hours and Earnings from the Current Population Survey."

Importers dealt with the direct cost increases of goods sourced from China in different ways. For price-sensitive apparel products like T-shirts, many importers had to absorb the higher costs into their overhead. In other cases, the tariff costs were passed on in whole or in part to consumer prices, again depending crucially on how price sensitive the final purchaser of the product is. In some cases, the prices of apparel products not subject to the tariffs were increased when consumer price sensitivity was lower for that product to offset the higher cost associated with a price-sensitive apparel product subject to the tariffs.

While not back to pre-Section 301 levels, U.S. imports of apparel from China are rising again. The increase is happening to apparel subject to tariffs as well as apparel not subject to the tariffs, despite the tariffs. This increase is most likely because supply chain disruptions of 2020 and 2021 have largely worked themselves through. But also important is the fact that some apparel products subject to the Section 301 tariffs simply cannot be sourced from non-Chinese producers, for a variety of reasons:

- Sourcing decisions are made not just on the basis of unit values including tariffs, but also other factors that affect the total cost of the apparel item: e.g., order size requirements, flexibility, time to market, and greater variety of product assortment. China offers many advantages for these non-price factors that reduce the total cost of an item relative to other suppliers, even with the Section 301 tariffs included.

- Apparel products that require specialized inputs that were already set up to be supplied by Chinese producers could not easily move out of China, where those input supply chains did not exist. A large retailer reported that products it still must source from China include those whose “main feature is complex fabrics, heavy weight fabrics and [those that] need short production time, for example, outerwear, heavy sleepwear.” Apparel fashion accessories like head and hand items that require skilled labor could not be sourced at competitive prices outside China.

- Apparel subject to small “minimum quantity orders” often had to continue to be supplied by Chinese producers able to meet U.S. buyer needs for these lower quantity orders. One large multi-product retailer said that fashion apparel with small order quantities had to stay in China because alternatives like Vietnam “won’t take small runs.”

- Apparel products subject to safety requirements must be produced by manufacturers who understand those concerns, have been vetted over time and even certified as capable of producing product that meet U.S. safety standards. That production and manufacturing expertise is not easily moved to new suppliers in a timely manner. Apparel products like bibs and accessory products like blankets made of plush fabric stayed in China despite the tariffs, according to one large apparel retailer.

- Apparel products that are less price sensitive – and harder to source from other foreign suppliers – remained with Chinese producers and U.S. fashion retailers were able to

> pass on the higher costs to consumers who are less price sensitive. One large apparel and footwear retailer reported that cashmere sweaters were one such product it continues to source from China, with the tariffs, because alternative sources of quality supply are not available. Another specialty apparel retailer also pointed to sweaters as a product that had to remain in China; still another, "fine gauge sweaters". An additional mid-sized apparel brand reports that apparel that requires certain machinery specific to making the knitwear it sells is only readily available in China and moving that machinery out of China would have been cost-prohibitive. In short, Chinese producers likely kept "better" orders as a result of the tariffs: orders for higher margin fashion apparel goods that they could charge more for than commodity products like T-shirts.

Apparel sourcing that could "make the move" to other countries is unlikely to return to China should the Section 301 tariffs be lifted. Many large apparel sourcing companies are much less dependent on producers in China as they have diversified their supply sources. This diversification has come at great expense to the companies but it has the benefit of reducing supply chain risks in the future. Those risks come from unexpected U.S. government actions, like tariffs, as well as from port labor strikes or Covid "lockdowns" in other countries, for example. Having undertaken these expensive diversification efforts, concern that lifting the tariffs will lead to wholesale shift in sourcing back to China is unfounded.

In short: the Section 301 tariffs on apparel imported from China had very little negative impacts on Chinese producers, who managed to maintain most of their business with U.S. customers. U.S. manufacturers and their workers did not benefit. Instead, the negative impacts – higher costs and higher prices – fell on U.S. companies and other U.S. consumers, especially American families.

B. Footwear

List 4A imposed Section 301 tariffs of 15% on about half of the footwear imported from China on September 1, 2019. Those tariffs were later reduced on February 14, 2020, to 7.5%. The tariffs most heavily impacted imports from China of waterproof footwear (97% of the value of pre-tariff imports or waterproof footwear from China was affected by the tariffs) and leather footwear (95% of total leather footwear imports from China in 2017). The tariffs imposed an annual direct cost on importers of over $250 million, escalating every year to over $450 million in 2022. No footwear tariff exclusions were granted to mitigate the negative impacts of the tariffs on footwear sourcing companies. According to Mercatus Center, every one of the 442 footwear product exclusion requests filed was denied.[6].

The tariffs reduced sourcing from China of footwear subject to the tariffs as U.S. companies sought new suppliers in other countries. China's share of total U.S. footwear imports fell from 53% in 2018, before the tariffs were imposed, to 40% in 2022, or by $1.1 billion. Imports from

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[6] Unpublished data from Quantgov, Mercatus Center, George Mason University and calculations by Christine McDaniel, https:/www.quantgov.org/tariffs#section-301.

other countries increased by $7.7 billion over the same period. The United States significantly increased imports from Vietnam (+$3.9 billion); other leading alternatives included Indonesia (+$1.4 billion) and Italy (+$836 million).

Footwear Imports (HTS 64)

(Millions and Percent)

		2017	2018	2019*	2020	2021	2022 Est.
1	Total footwear imports from China	$14,190.8	$14,053.0	$13,279.3	$8,356.6	$11,131.2	$13,909.2
2	China's share of footwear imports from world	56%	53%	49%	41%	41%	40%
3	Section 301 footwear imports from China	$7,680.5	$7,374.3	$6,812.9 $1,959.8 (S-D)	$3,934.8	$4,689.5	$6,313.7
4	Estimated Section 301 tariffs paid	n.a	n.a	$257.2	$335.0	$344.0	$457.5
5	Section 301 imports' share of total footwear imports from China (line 3 as a share of line1)	54%	52%	51% (13% S-D)	47%	42%	45%
6	Section 301 footwear items imported from other countries	$10,260.3	$11,276.2	$12,263.3	$10,748.4	$14,008.7	$19,418.7

* Section 301 tariffs first imposed September 1, 2019. "S-D" = September to December.
Note: 2022 Est. covers December 2021 through November 2022.
Source: Trade Partnership Worldwide LLC from U.S. Census data.

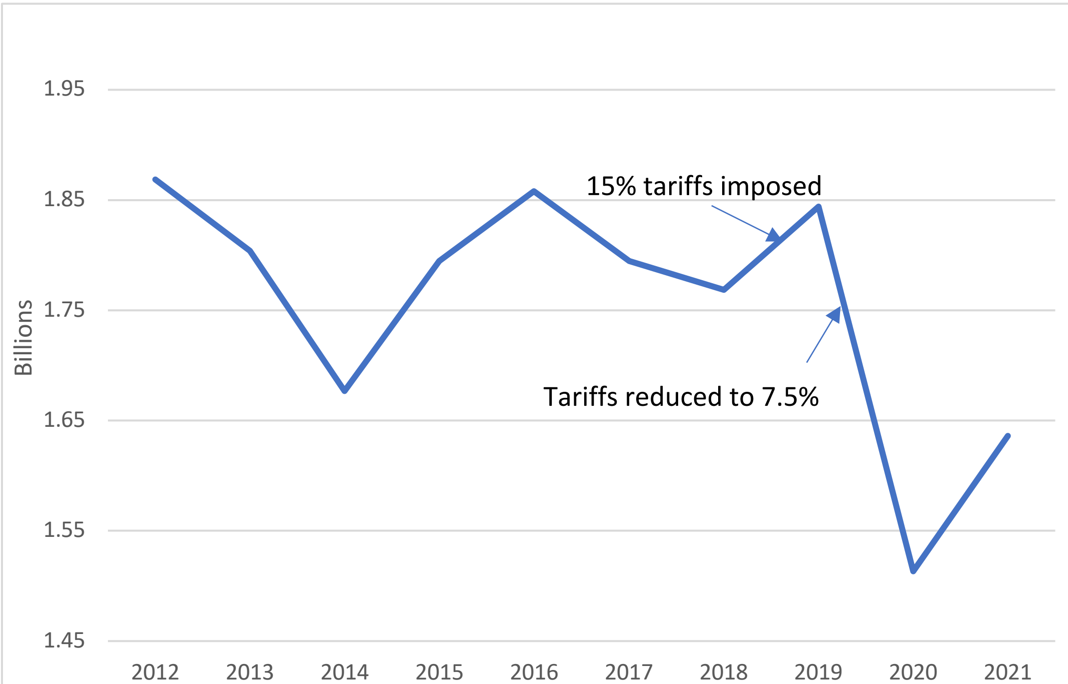
Like apparel, some footwear sourcing moved to other foreign manufacturers, but most could not. A significant amount remains in China despite the tariffs, and in fact data suggest a large increase is underway in 2022. Like apparel, much of the recent increase in imports of footwear from China can be traced to the winding down of supply chain bottlenecks that added to sourcing difficulties – from all foreign suppliers – in 2020 and 2021.

According to footwear companies surveyed, important categories of footwear subject to the Section 301 tariffs could not be readily moved out of China due to two primary factors.

- Chinese producers offer "unique capabilities" that give them an edge in producing certain footwear. One footwear buyer reported that specific types of footwear that required special machinery or production expertise to manufacture had to remain in China despite the added costs of the tariffs to protect product quality. Another large retailer had to keep sourcing higher-end Goodyear welt construction work boots from China because cost effective and quality equivalent alternative suppliers outside China could not be identified. Yet another large multi-product retailer said that sourcing needed to remain in China because of the need to source components of production there.

- The ability to move footwear supply chains outside China has been constrained by limited capacity in other countries. This is especially true for athletic footwear.

Chart 3
U.S. Footwear Shipments, 2012-2021
(Billions of Dollars)



Source: U.S. Census Bureau, Annual Survey of Manufacturers, https://www.census.gov/data/tables/time-series/econ/asm/2018-2021-asm.html.

U.S. government data for U.S. footwear manufacturing shipments are more aggregated (annual only), where they exist, than that for apparel. But what is available does not clearly demonstrate that the Section 301 tariffs drove sourcing back to the United States. Annual shipments data show a generally flat trend until the Covid-19 pandemic hit, when like every other sector it dropped precipitously. There has been some recovery since, but not due to the tariffs given that the value of U.S. imports from China affected by the tariffs is relatively stable (2020 excepted). U.S. government employment data for U.S. footwear manufacturing are not available.

Information collected from U.S. companies importing footwear from China over this period confirm that very little of that sourcing could return to the United States. U.S. footwear and parts (e.g., molds and shoe soles) companies we surveyed who source from China were unable to transfer sourcing to U.S. producers.

- One large footwear and apparel brand and retailer summed up the situation: “No production has moved to the United States. There is no meaningful high end athletic footwear manufacturing in Asia [outside China]. Higher tariffs only served to cost American companies and American consumers more money. No benefit to American manufacturing or progress on the core issues behind initial 301 as inclusion of our products was entirely unrelated.”

- Another reports: the “[c]ost structure for U.S. produced molds is 3-4 times that of Asia and the customer is simply unwilling to pay that amount. As for soles, U.S. producers, ourselves included, do not have the capabilities to do the hand labor involved in the more intricate styles and types of products.” These products had to continue to be sourced from China with the tariffs, which Chinese producers did not absorb.

Most of the companies (over 80%) that source footwear globally and responded to the survey pricing questions said they had passed on at least some of the tariffs to their customers in the form of higher prices. Another 10% have passed along all of the tariffs to customers. A number have increased the tariff cost pass-through over time (a much smaller number have been able to lower it).

In short: like apparel, the burden of the Section 301 tariffs on footwear imported from China has fallen primarily on U.S. companies and American families in the form of higher costs and higher prices. They had very little negative impacts on Chinese producers, who managed to maintain most of their business with U.S. customers, and even increase it this year. U.S. manufacturers and their workers did not benefit from any significant (if even measurable) reshoring of footwear sourcing.

C. Travel Goods

List 3 Section 301 tariffs of 10% were imposed on September 24, 2018, on *all* travel goods (backpacks, luggage, handbags, wallets, etc.) imported from China and increased to 25% on May 10, 2019. The tariffs resulted in growing a direct cost to importers, reaching nearly $800 million in 2022. The exclusion process did little to lighten the burden. According to data from Mercatus Center, of 860 travel goods product exclusion requests filed, only 56 (7%) were approved; 804 (93 %) were denied.[7]

The travel goods category is an interesting case study about the impacts of the Section 301 tariffs on American companies and consumers. In the mid 2010s, U.S. buyers began to move sourcing out of China as travel goods from least-developed countries became eligible for Generalized System of Preference (GSP) duty-free benefits in 2016, followed by duty-free

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[7] Unpublished data from Quantgov, Mercatus Center, George Mason University and calculations by Christine McDaniel, https:/www.quantgov.org/tariffs#section-301.

treatment for travel goods from other GSP-eligible developing countries in 2017. Section 301 tariffs on China supercharged the shift: U.S. companies could buy travel goods duty-free from GSP countries or pay tariffs (MFN duties plus the Section 301 tariffs) exceeding 40% for most of 2019/2020 for the same products from China. From 2015 to 2020, U.S. imports from China dropped from $7.2 billion to $2.2 billion while U.S. imports from GSP countries grew to about $2 billion annually. One mid-sized women's accessory and handbag brand reported that over eight years its share of imports from China fell from 88% of its total to 17%.

Then GSP expired on December 31, 2020, and U.S. buyers had to begin in 2021 paying U.S. MFN duties of 17-20% on formerly duty-free imports. Those duties made products sourced from GSP eligible countries less competitive compared to manufacturers in China despite the 25% Section 301 tariffs on China. Since the end of 2020, U.S. imports from China have increased substantially.

Another factor complicating sourcing of some of these products from other countries was the appearance of travel goods products on various retaliation lists proposed by USTR in 2021 in response to pending Section 301 investigations of digital services taxes. While retaliatory tariffs were (so far) not imposed, the uncertainty over whether they would be made sourcing these goods from non-Chinese suppliers uncertain. This is the worst of all worlds for U.S. buyers, with both China *and* its competitors facing significantly higher tariffs compared to early 2018.

Travel Goods Imports (HTS 4202)

(Millions and Percent)

		2017	2018*	2019	2020	2021	2022 Est.
1	Total travel goods imports from China	$6,263.1	$6,358.1	$4,175.4	$2,243.8	$2,828.3	$3,379.5
2	China's share of travel goods imports from world	58%	55%	39%	28%	25%	24%
3	Section 301 travel goods imports from China	$6,263.1	$6,358.1 $1,664.6 (O-D)	$4,175.4	$2,243.8	$2,828.3	$3,379.5
4	Estimated Section 301 tariffs paid	0	$165.4	$680.2	$470.4	$681.37	$769.0
5	Section 301 imports' share of total travel goods imports from China (line 3 as a share of line1)	100%	100%	100%	100%	100%	100%
6	Section 301 travel goods items imported from other countries	$4,450.6	$5,234.1	$6,608.7	$5,820.8	$8,285.0	$10,525.1

* Section 301 tariffs first imposed September 24, 2018. "O-D" = October to December.
Note: 2022 Est. covers December 2021 through November 2022.
Source: Trade Partnership Worldwide LLC from U.S. Census data.

As with apparel and footwear, some travel goods sourcing went to other foreign suppliers after the United States imposed Section 301 tariffs on imports from China. Imports of Section 301 products from other countries increased by $6.1 billion between 2017 and 2022, offsetting the $2.9 billion decline from China. The United States significantly increased imports from Cambodia (+$1.7 billion), Italy (+$1.2 billion), France (+$806 million) and Indonesia (+$821 million) over that period.

Unfortunately, no official U.S. government data are published for U.S. shipments of travel goods or employment by travel goods manufacturers (although shipments of the broader "Leather and Allied Goods" declined by 6% between 2015 and 2021.) But small, medium and large companies responding to the survey in combination represent sellers of large volumes of travel goods in the U.S. market. They report that little to no travel goods sourcing could be transferred to U.S. manufacturers. One small minority woman-owned travel goods designer/wholesaler/retailer tells a typical story: U.S. manufacturers she approached said they could not make the product she sought because it required the assembly of hundreds of pieces and tooling that they could not do or, if they could, would price the product out of the market. In addition, she could not place the volumes of orders the manufacturer required, and without those order sizes certain manufacturers would not even provide her with quotations.

While well below their pre-Section 301 peak, imports of travel goods from China are rising. One large multi-product retailer reports that "…the componentry supply chain and Covid impacts to other countries of production … have derailed plans to change sources." The small company attempting to source from U.S manufacturers also remains in China for much of the product line because the raw materials, machinery and skilled labor needed to produce the designs are hard to move outside China. While limited runs were completed in Cambodia – at a factory owned by the Chinese supplier – the main production remains in China.

Most (more than 80%) companies that source travel goods and responded to the survey questions about pricing said they had passed on at least some of the tariffs to their customers in the form of higher prices. Another 9% have passed along all of the tariffs to customers. A number have increased the tariff cost pass-through over time (a much smaller number have been able to lower it). A large multi-product retailer reported that it increased the prices of luggage it sold subject to Section 301 tariffs by 10% in 2018, 17% in 2019, and 21-22% in 2020-2022.

In short: Again, like apparel and footwear, the burden of the Section 301 tariffs on travel goods imported from China has fallen primarily on U.S. companies and other U.S. consumers in the form of higher costs and higher prices. They had very little negative impacts on Chinese producers, who managed to maintain half of their business with U.S. customers. U.S. manufacturers and their workers did not benefit.

D. Furniture

List 3 Section 301 tariffs of 10% were imposed on September 24, 2018, on *all* furniture imported from China and increased the tariffs to 25% on May 10, 2019. The tariffs imposed an annual direct cost on importers of over $1 billion. Very few furniture tariff exclusions have succeeded in mitigating the negative impacts of the tariffs on furniture sourcing companies.

Mercatus Center calculates that, of 3,017 furniture product exclusion requests filed, just 141 (5%) were approved; 2,876 (95%) were denied.[8]

U.S. importers reduced furniture sourcing from China, dropping China's share of total furniture products imported from the world from as high as 50% in 2018 to just 25% in 2022. As with apparel, footwear and travel goods, some sourcing went to other foreign suppliers. Imports from China of furniture subject to 301 dropped by $3.31 billion since 2017. Imports of these products from other countries increased by $11.7 billion over the period, with the largest gains in Vietnam (+$4.8 billion), Mexico (+$1.5 billion) and Malaysia (+$972 million).

Furniture Imports (HTS 9403)

(Millions and Percent)

		2017	2018*	2019	2020	2021	2022 Est.
1	Total furniture imports from China	$11,327.5	$12,509.2	$8,748.9	$6,949.6	$8,097.2	$8,061.5
2	China's share of furniture imports from world	49%	50%	38%	30%	29%	25%
3	Section 301 furniture imports from China	$11,325.2	$12,501.9 $3,356.3 (O-D)	$8,730.8	$6,915.8	$8,063.6	$8,026.4
4	Estimated Section 301 tariffs paid	n.a.	$319.2	$1,411.8	$1,437.1	$1,814.0	$1,746.1
5	Section 301 imports' share of total furniture imports from China (line 3 as a share of line1)	n.a.	100% (27% O-D)	100%	100%	100%	100%
6	Section 301 furniture items imported from other countries	$11,975.7	$12,717.5	$14,521.8	$16,558.5	$20,284.4	$23,646.8

* Section 301 tariffs first imposed September 24, 2018. "O-D" = October to December.
Note: 2022 Est. covers December 2021 through November 2022.
Source: Trade Partnership Worldwide LLC from U.S. Census data, Seasonally adjusted.

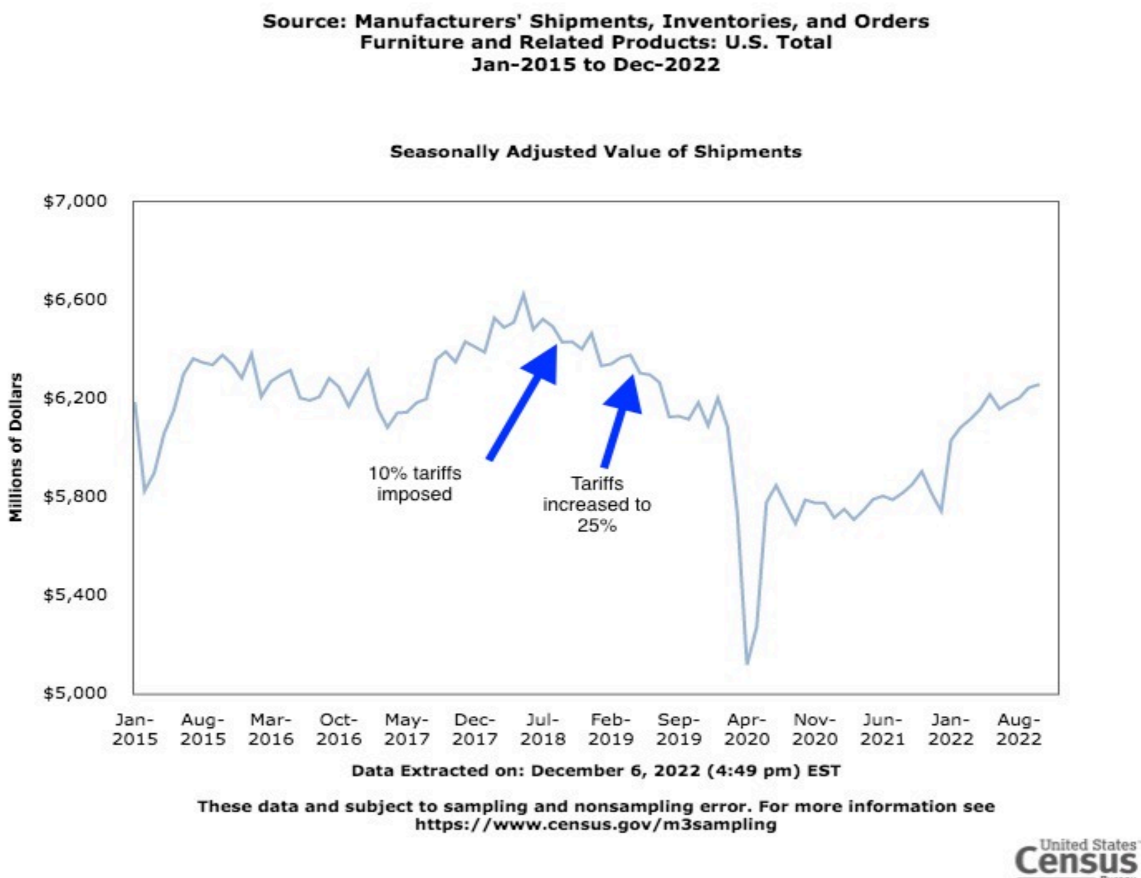
Furniture suppliers responding to the survey indicated that a large obstacle to moving away from China has been that comparable volume production levels are not easy to find elsewhere. One large furniture retailer noted that China remains a top option to provide good capacity for higher volume business and "especially" for special order upholstery business, where furniture is built to individual customer selections for fabrics/leathers. In addition, some furniture (e.g., children's furniture) requires U.S. health and safety requirements be met, which lengthens the cost and timing for new suppliers who must meet certification and other safety requirements before orders can be placed. Another large furniture retailer selling products in stores located all over the world reported that they source in China: "Because [our company] is purchasing on a global level for all of [our] stores worldwide, for many items there could be a single supplier

[8] Unpublished data from Quantgov, Mercatus Center, George Mason University and calculations by Christine McDaniel, https:/www.quantgov.org/tariffs#section-301.

globally for lower selling or volume goods. Currently many of these suppliers are located in China so from a global cost standpoint it does not make business sense to change this supplier just for the United States market. So the 301 tariffs have not had a big impact on overall sourcing other than it has caused significant price increases for U.S. customers as those 301 duties have been passed on to U.S. customers versus customers in other countries"

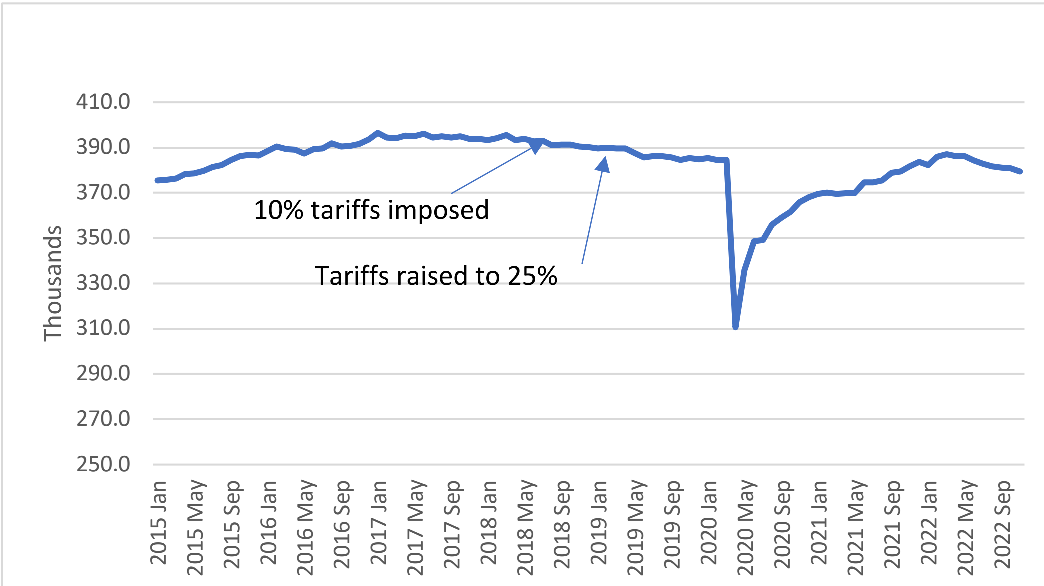
The imposition of the Section 301 tariffs on imports from China did not drive any significant sourcing of furniture back to U.S. manufacturers. U.S. government data show U.S. furniture shipments declining steadily since 2017 (see Chart 4). Employment data over the period (Chart 5) confirm that U.S. workers did not benefit from any return of furniture sourcing to the United States after the tariffs were imposed.

Chart 4



Source: U.S. Census Bureau, "Manufacturers' Shipments, Inventories & Orders," https://www.census.gov/manufacturing/m3/data/index.html.

Chart 5
U.S. Furniture Manufacturing Employment, Monthly, 2015-2022
Seasonally Adjusted
(Thousands)



Source: Bureau of Labor Statistics, "Employment, Hours and Earnings from the Current Population Survey."

The tariffs eventually found their way into retail prices. One furniture retailer reported it had to absorb the tariff costs when first applied, for the first six months at 10%, and then again at 25%. As the tariffs continued over time, it was eventually forced to pass on the costs to consumers. But higher prices for products like sofas and children's furniture could lead to sticker shock for price sensitive customers – especially those who can postpone the purchase. Some who could not raise prices or share the costs with suppliers canceled orders from China altogether. Another large furniture retailer reported that it has passed along to retail customers 77% of the Section 301 tariffs it has paid from 2019-22. They noted that they could not pass along some of the duties in 2019 because the tariffs took effect a month after the company's catalogue was published and it had therefore guaranteed those prices for the fiscal year. Yet another large multi-product retailer reported that it increased the prices of furniture it sold subject to Section 301 tariffs by 9.8% in 2018, 16.5% in 2019, and over 23% in 2020-2022.

In short: once again, the Section 301 tariffs applied to U.S. imports of furniture from China have had their greatest negative impact on American companies and American families in the form of higher costs and higher prices. Chinese manufacturers continue to be important sources of supply, and U.S. producers and their workers have not benefited in any measurable way.

III. Non-Tariff Costs

In addition to the tariffs themselves, the Section 301 tariffs applied to consumer goods imported from China have had a host of significant indirect costs that have found their way into prices or have proven to be hits to the companies' bottom lines. These include higher costs associated with shifting — or trying to shift — sourcing out of China to other countries, including the United States, and higher costs associated with the uncertainty surrounding the tariff exclusion process and now, the expiration of the tariffs.

A. Higher costs of shifting to other sources of supply.

U.S. companies worked hard to seek out alternative sources of supply to China when the tariffs were first announced and then implemented. This is a costly process that is not always successful. The alternative supplier must have the ability to produce the product not only at a competitive price to that of China but also in the quantities needed and at comparable quality. The new supplier must also meet the compliance requirements, both technical and social, to become an approved vendor for the brand or retailer. U.S. importers (including U.S. producers, wholesalers and retailers) needed to spend millions of dollars on research and development, travel, sampling costs, and finding and/or hiring additional staff to keep these searches for alternatives to China going over the past four years. A survey by the U.S. Fashion Industry Association of over 30 leading U.S. fashion retailers, brands, wholesalers and importers found that nearly 90 percent of respondents say the Section 301 tariffs imposed on imports from China directly increased their company's sourcing costs.[9]

When COVID-19 hit, shifting supply became even more challenging — and expensive: producers could not travel to new sites to do inspections and had to instead rely on third-party auditors. In many cases these producers have had decades-long relationships with suppliers in China and in-house quality teams on site. Shifting to new countries takes time and higher costs associated with training third-party quality inspectors.

For some product categories, no alternative sources could be found. One medium-sized footwear wholesaler reported it had to keep its entire line in China, subject to the tariffs, because the cost of moving production lines to new suppliers would have been "excessive" and too difficult. In addition, the availability of components needed to produce footwear in China was "already established" and too expensive to move as well.

Where alternatives could be found, more often than not the total cost (price, quantity, quality) was higher than for China, even with the tariffs added to the Chinese cost.

And the expense did not end here: many retailers have to deal with ongoing quality and delivery issues with new suppliers.

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[9] Dr. Sheng Lu, "U.S. Fashion Industry Benchmarking Study," July 2021, United States Fashion Industry Association, p. 17, https://www.usfashionindustry.com/pdf_files/20210715-fashion-industry-benchmarking-survey.pdf.

Perhaps ironically, given the hope that production might return to the United States, the tariffs often have made supply chains longer and more complicated. Many companies that were able to shift sourcing to other countries still relied on Chinese inputs. As such, production lead times increased to allow needed time to get from China to the new factory. Once production was completed, it often took longer – and cost more – to ship a product from other Southeast Asian countries (e.g., Vietnam, Cambodia, etc.) to the United States.

B. Higher costs associated with increased overhead

One small footwear wholesaler surveyed said their inventory costs soared when the higher costs associated with the tariffed footwear cut unit volume, which "bloated our inventory. Our profit was more than cut in half due to inventory storage costs." The U.S. Fashion Industry Association survey reports that 74% of companies surveyed said the tariffs on imports from China had hurt their company's financials.[10]

For some products like furniture, the cost of carrying inventory during the transition to a new supplier proved especially expensive: It can take 18-24 months to get new production up and running so furniture retailers have to carry sufficient inventory from the original factory to tide them over the transition.

C. Higher costs associated with uncertainty surrounding the tariff exclusion process and, now, the expiration of the tariffs

U.S. companies importing apparel, footwear, travel goods and furniture filed in the aggregate thousands of tariff exclusion requests, at significant internal and external cost to the companies. These costs included administrative costs of filing the request (or hiring consultants or law firms to do it for them), as well as reviewing the requests that were granted to others to see if they could be applied to the company's goods. While some of the exclusion petitions were successful, those tariff exemptions barely generated enough savings to offset the internal and external costs of filing requests. Some filers were granted an exclusion request, only to find the product reappear on a future tariff target list months later, or the exclusion expired.

Since the majority of product exclusion requests for these consumer products were not successful, these costs represent a drain on company bottom lines and served to discourage some brands and retailers from filing for exclusions. Because each exclusion was based not just on the HTS number but also on a detailed product description, the complexity of the tariff exclusion process made this a very expensive and very complicated process. There were additional substantial costs for companies' brokers and in-house teams to manage the unpredictable process. These costs included programming updates whenever the product exclusions were approved, expired or renewed. Manual updates were often required since

10 Dr. Sheng Lu, "U.S. Fashion Industry Benchmarking Study," July 2021, United States Fashion Industry Association, p. 17, https://www.usfashionindustry.com/pdf_files/20210715-fashion-industry-benchmarking-survey.pdf.

there were delays in the necessary updates to the U.S. Customs and Border Protection software each time that there were changes. Finally, the costs of compliance are extremely high as companies must manually review their entries and must act to file for refunds before entries are liquidated.

It is important to remember that most U.S. companies cannot suddenly raise prices to consumers to offset the restored tariff. Similarly, pricing of goods is established months before the goods reach the sales floor, and when uncertainty abounds — as it does because of the "broken" exclusion process and now, the prospect of expiration of the tariffs — companies often must err on the side of higher costs and embed those in consumer prices nonetheless.

In short, the indirect costs of the tariffs have totaled in the billions and are finding their way into consumer prices. Management of the China 301 tariffs — reporting, analysis, action plans and assessment of success, for example — has been draining on businesses.

D. Bifurcated supply chains

Some American companies sourcing apparel, footwear, travel goods and furniture are global companies. They make or purchase products for sale to American customers, customers in Europe, Asia, Canada and other western hemisphere locations, and also for Chinese customers in stores or other sales facilities they maintain in China. The Section 301 tariffs have required them to shift what sourcing destined for the United States they can out of China to producers in other countries. They can continue to supply customers in other locations from their Chinese suppliers, however these bifurcated supply chains add to operational costs and impede supply chain flexibility.

IV. Impacts of Section 301 Tariffs on Apparel, Footwear, Furniture and Travel Goods on Families

It is well-documented that lower-income households spend greater shares of their incomes on apparel, footwear and other consumer goods than higher income households.[11] The latest data from the Bureau of Labor Statistics "Consumer Expenditure Survey" for 2021 confirms this fact. It also demonstrates that households headed by minorities and those without a college education spend greater shares of their incomes on apparel, footwear and furniture (data are not available for spending on travel goods). For example, the table below shows that the apparel spending's share of total income of households in the lowest quintile of income (20%) is more than triple than that of the wealthiest households.

Consumer Expenditures on Apparel, Footwear, Furniture, 2021:
Share of After-Tax Income

Percent

	Apparel	Footwear	Furniture
By Income Quintile			
Lowest 20%	5.93	1.04	2.23
Highest 20%	1.79	0.33	0.81
By Race of Head of Household			
Black or African American	2.74	0.60	1.15
Asian	2.23	0.39	0.81
Hispanic or Latino	3.26	0.67	0.90
White, all other	2.00	0.37	0.88
By Educational Attainment of Head of Household			
Without College	2.49	0.48	0.91
College Graduate	2.07	0.39	0.91

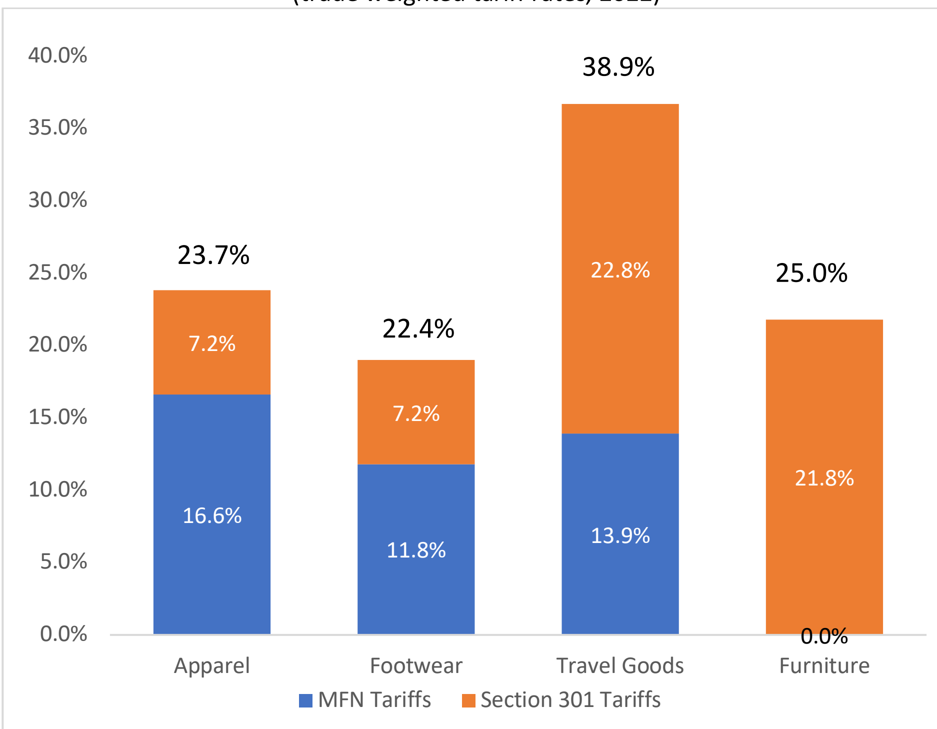
Source: Bureau of Labor Statistics, Consumer Expenditure Survey, 2021, https://www.bls.gov/cex/tables/calendar-year/mean-item-share-average-standard-error.htm#rf-add.

Tariffs on imports of apparel, footwear and travel goods, in particular, are among the highest in the U.S. tariff code, even absent the Section 301 duties on imports from China (the MFN rate for furniture is 0%). In 2017 the trade weighted MFN tariff on apparel products from China that would be subject to Section 301 tariffs in 2019 was 16.6%; footwear, 11.8%; and travel goods,

[11] Ed Gresser's comprehensive work on this topic is the most widely known (see for example "Trade Policy, Equity and the Working Poor," Progressive Policy Institute, April 19, 2022, https://www.progressivepolicy.org/publication/trade-policy-equity-and-the-working-poor/). Another recent contribution has been made by Miguel Acosta and Lydia Cox, "the Regressive Nature of the U.S. Tariff Code: Origins and Implications," https://coxlydia.com/papers/AcostaCoxRegressive.pdf and Kathryn N. Russ, Jay Shambaugh, and Jason Furman, "US tariffs are an arbitrary and regressive tax,"VoxEU/CEPR, January 17, 2017, https://cepr.org/voxeu/columns/us-tariffs-are-arbitrary-and-regressive-tax.

13.9%, compared to an average for all goods of just 1.4%. (The rates for many individual consumer goods within the category can be much higher than the category average reported here. For example, U.S. MFN duties on low-value and children's footwear are much higher than those on other types of footwear.) The Section 301 duties add considerably to this tariff burden for products imported from China, as shown in Chart 6.

Chart 6
MFN and Section 301 Tariff Rates Affecting Section 301 Product Imports from China
(trade weighted tariff rates, 2022)



MFN rate reflects trade weighted average for Section 301 product imports from China in 2017
Section 301 rates reflect final rates (after reductions)
Source: U.S. Census Bureau.

Therefore, it stands to reason that, to the degree that higher costs of apparel, footwear, travel goods and furniture imported from China find their ways into consumer prices, lower income households and those headed by minorities and individuals without a college degree pay a greater share of the tariffs than wealthier households and those headed by whites and individuals with college degrees. Trade Partnership Worldwide estimates substantiate this hypothesis. If only half of the tariffs paid in 2021 by U.S. importers found their way into retail prices and consumer spending in that year, we estimate that those higher costs made up higher shares of household spending on apparel, footwear, furniture and other apparel and services (e.g., travel goods) for more economically vulnerable households than others. Households in the lowest quintile of incomes paid three times as much of the higher tariff costs embedded in retail prices of apparel, footwear and furniture as households in the highest income quintile. Households headed by minorities paid more of the tariff costs than households headed by Whites. Households headed by individuals without a college degree paid more than those headed by a college graduate.

Estimated Section 301 Tariffs Breakdown of by Type of Head of Household, 2021: Apparel, Footwear, Furniture, Travel Goods Tariffs Paid as a Share of Total Household Spending
(Percent)

By Income Quintile	
- Lowest 20%	0.03%
- Highest 20%	0.01
By Race of Head of Household	
- Black or African American	0.07
- Asian	0.06
- Hispanic or Latino	0.07
- White, all other	0.05
By Educational Attainment of Head of Household	
- Less than College	0.06
- College Graduate	0.05

Source: Trade Partnership Worldwide

In short: the Section 301 tariffs applied to U.S. imports from China of apparel, footwear, travel goods and furniture that have found their ways into retail prices of those goods have fallen heaviest on low income households and households headed by minorities or those with high school or under levels of education.

V. Conclusion

Section 301 tariffs on imports of apparel, footwear, travel goods and furniture goods from China have not had a significant negative impact on Chinese producers, who have managed to maintain much of their business with U.S. buyers despite the tariffs. Instead, those tariffs imposed significant direct and indirect costs on U.S. companies importing or otherwise purchasing those goods from China, as well as imports of replacement goods sourced from other manufacturers both abroad and, in very limited instances, in the United States. Higher costs were in many cases initially absorbed by importers and other U.S. buyers, or passed on to the final customer; however, today more and more of that additional cost burden associated with the tariffs is being passed on to the prices paid by final consumers — American families.