Coalition of Services Industries (CSI)

Comments Concerning Proposed Modification of Action Pursuant to Section 301:
China's Acts, Policies, and Practices
Related to Technology Transfer, Intellectual Property, and Innovation

Docket Number USTR-2019-0015
September 20, 2019

The Coalition of Services Industries (CSI) appreciates the opportunity to submit comments to the Office of the United States Trade Representative (USTR) on its proposal to increase the rate of additional duty from 25 percent to 30 percent on the products of China currently subject to tariff actions first taken in June, August, and September 2018. The additional tariff would affect products with an aggregate annual trade value of approximately $250 billion.

CSI, established in 1982, is the leading industry association devoted exclusively to helping America's services businesses, increasingly digitally enabled services, and workers compete in world markets. CSI member companies represent a broad spectrum of the U.S. services sector, including distribution services, express delivery, financial services, media and entertainment, telecommunications, information and communications technology (ICT) services, and professional services. These services are a critical enabler for U.S. economic growth.

In a previous set of comments submitted September 6, 2018, CSI described in some detail the growing U.S.-China services trade relationship. In brief, we will note in this follow-on submission that the U.S. claims a trade surplus with China in services of $39 billion as of 2018[1] and that China has become one of the fastest-growing markets for U.S. services exports.

While CSI supports USTR's efforts to address trade practices of longstanding concern in China, the current remedy of successively raising tariffs on Chinese imports has unfortunately had serious negative consequences for U.S. companies, including many services suppliers. The existing Section 301 duty rate of 25 percent has already substantially increased the cost of products that U.S. services providers rely on to deliver or facilitate the provision of services to consumers and business. The proposed marginal increase to 30 percent will only further ratchet up pressure on U.S. companies that are already at a disadvantage to global competitors not subject to duties.

In our 2018 submission, CSI described the negative impacts of duties on products subject to the original tariff action. They include key building blocks of the digital economy such as printed circuit board assemblies, gateways, modems, routers, switches and disk drives. For detailed information on the scope of products affected by tariffs and the effects in particular on American information and communications technology companies, we would refer readers to our original comments. We have summarized our primary concerns as follows:

- The administration's actions would further increase tariffs on goods that are critical to digital economy services, where the U.S. is currently a global leader. For example, duties will raise still higher the cost of equipment used in the provision of internet services, data centers and cloud infrastructure, and augmented reality and virtual reality. Making core equipment more expensive stands to dampen demand for the most advanced ICT products and services – so that a remedy aiming to redress trade inequities in China will have the inverse effect of hurting profits for U.S. technology firms.

[1] *U.S. Trade in Services by Selected Countries and Areas*, https://www.bea.gov/system/files/2019-09/trad0719.pdf, see p. 41

- Proposed tariffs would also affect analog products related to sound recordings and motion-picture film that have little to no trade value and whose inclusion runs counter to long-standing U.S. policy.

- From a practical standpoint, it has proven difficult in many cases for U.S. suppliers to find high-standard sourcing alternatives to China. Sourcing decisions are based on a complex matrix of factors including price, quality, and compliance with technical standards, consumer product standards, and ethical sourcing commitments. It is often a major challenge to find substitute sourcing that meets the necessary requirements.
  In that sense, the imposition of tariffs takes a punitive toll on U.S. firms for a problem that it may be impossible for them to solve within a limited time period. It is still harder to fix when multiple companies are suddenly forced to simultaneously compete to secure the sourcing alternatives that do exist.

- Higher tariffs will not only damage the providers of ICT equipment and services themselves, but also stand to drive up costs for the traditional industries, such as manufacturing and agriculture, that have begun employing digital technologies to boost productivity. Broadly speaking, U.S. companies have been early adopters of services that help them to improve business processes – for example, monitoring equipment problems to reduce downtime, evaluating changing customer preferences to better forecast demand, and tracking inventory more closely to minimize losses and theft. The imposition of substantial tariffs could slow adoption of advanced services that have endowed U.S. companies across the economy with a competitive edge relative to global peers.

- Higher duties on digital goods are likely to create a perverse incentive for U.S. consumers of technologies such as cloud computing to look for cheaper alternative services in other countries, where equipment is not subject to Section 301 tariffs.

- In addition, China may opt to respond to the U.S. approach of tariff escalation by implementing new non-tariff barriers against American firms. Beijing has already imposed duties on a significant amount of the goods it imports from the U.S. With that remedy largely tapped, it's possible the Chinese government could next pursue non-tariff retaliation that could be directed at U.S. services providers. Such an outcome might reduce the existing nearly $40 billion surplus the U.S. now enjoys in its services trade with China.

In short, there is a broader economic cost associated with imposing high tariffs on the core equipment that enables the digital economy. We believe it would be highly inadvisable to hike existing Section 301 duties still higher, and in fact we believe the U.S. economy would be better served if tariffs had not been imposed as part of 301 remedies. Thank you for the opportunity to provide comment.