CHINA

China Threatens U.S. Cars, Planes and Soy in Response to Trump

Beijing hits back at U.S. with tariffs on $50 billion of goods

Soybeans are harvested in Princeton, Ill. Soybeans and smaller commercial passenger planes, mostly made by Boeing Co., are the most valuable U.S. exports to China, worth nearly $23 billion last year. PHOTO: DANIEL ACKER/BLOOMBERG NEWS

By Lingling Wei and Yoko Kubota

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BEIJING—China stepped up its trade fight with the U.S., retaliating against proposed tariffs on Chinese goods by targeting high-value American exports, from airplanes to soybeans, in a tactic Beijing officials say is meant to secure a truce.

Hours after the Trump administration unveiled plans to impose tariffs of 25% on Chinese products worth $50 billion, China's State Council announced Wednesday that it would levy penalties of the same rate on U.S. goods of a similar value.

While the Trump list would affect 1,300 categories of goods, China critically is targeting a narrower range of 106 types of U.S. goods, many of them high-profile. Soybeans and smaller commercial passenger planes, mostly made by Boeing Co. , are the most valuable U.S. exports to China, worth nearly $23 billion last year.

Also prominent in China's retaliation are sport-utility vehicles and other agricultural products, from beef to sorghum—goods that were chosen to hit U.S. states that supported President Donald Trump, according to people familiar with Beijing's plans.

> Chinese government officials described China's response as defensive and forced upon Beijing in hopes of compelling the U.S. into talks to ease the countries' trade frictions.

"Both sides have put their lists on the table," Finance Vice Minister Zhu Guangyao told reporters. "Now it's time for negotiations."

Neither the U.S. nor Chinese tariffs take effect immediately. Mr. Zhu said whether or when China will enforce its penalties would depend on "the outcome of negotiations between the two sides." Under the U.S. plan, companies have until May 22 to object to the proposed tariffs, and the U.S. government then has at least 180 days to decide whether to go ahead, providing ample time for negotiations.

A Boeing airplane on the assembly line in Renton, Wash. Beijing has targeted the biggest American exports to China—soybeans and airplanes. PHOTO: TED S. WARREN/ASSOCIATED PRESS

Still, the tit-for-tat shook already jittery markets. The yen jumped 0.4% against the dollar to ¥106.15 in afternoon trading, while the price of gold, a safe-haven bet, rose 0.8% to $1347.60. Hong Kong's Hang Seng Index dropped 2.2% to a near eight-week low, while May crude oil futures tumbled 1.2% to $62.78 a barrel on the New York Mercantile Exchange.

Some economists and analysts saw Beijing's move as risky, increasing the likelihood that both sides could slip into a full-bore trade war, after months of rising tensions and rhetoric.

"Beijing is facing a difficult time now as it has resorted to its core weapons, such as soybeans and cars. If the disputes escalate, what else can Beijing use?" said Jianguang Shen, an economist at Mizuho Securities. "The government is adopting a strategy of fighting back with high profile, but quietly waiting for developments from the U.S."

President Trump in a tweet on Wednesday morning said, "We are not in a trade war with China, that war was lost many years ago by the foolish, or incompetent, people who represented the U.S."

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Chinese President Xi Jinping's economic czar, Liu He, recently exchanged letters with U.S. Treasury Secretary Steven Mnuchin and U.S. Trade Representative Robert Lighthizer over increased opening of the Chinese market. For now, according to individuals with knowledge of the matter, there remains a gap between what China is willing to offer and what the Trump administration will accept.

Heightening the chances for miscalculation, these economists said, are potentially mismatched expectations on both sides.

The Trump administration aims to rebalance trade that last year favored China by $375 billion, and President Trump wants to see that figure reduced by $100 billion. A series of U.S. moves this year have placed penalties on Chinese-made solar panels, dishwashers, steel and aluminum. Beijing responded in kind this week to the steel and aluminum tariffs with penalties on $3 billion of U.S. pork, nuts, aluminum pipes and other goods.

Tuesday's move by the Trump administration was potentially the biggest U.S. salvo, designed to punish Beijing for allegedly permitting cybertheft and unfair practices that force American companies to transfer technology.

The $50 billion in Chinese goods singled out include items in biomedicine, aerospace and new-energy vehicles, among others. Those and many other items are key components in a government initiative known as Made in China 2025 and backed by President Xi to upgrade China's industrial base and dominate the frontiers of manufacturing in coming decades.

"It's very clear that the U.S. is aimed at Made In China 2025," said Dong Yan, a trade expert at the Chinese Academy of Social Sciences, a government think-tank. Ms. Dong said China must be on "high alert" about U.S. efforts to contain the country's competitiveness.

While the U.S. targets are mostly about China's future, Chinese officials reached for remedies that would immediately inflict pain on the U.S. side.

Other big-ticket U.S. exports China targeted include liquid propane, other motorized vehicles and cotton, while large commercial jets, airplane engines and other aviation equipment were left off the list.

"Before China's second retaliation, we were talking about mainly the future. We were talking about strategic competition for China, i.e. world's leadership in technology, in a nutshell." Alicia García Herrero, chief economist for Asia Pacific at investment bank Natixis , said in a conference call. "But because of China retaliation a minute ago, we are back to immediate impact."

Beijing has braced for increased trade friction with the U.S. for months, rolling out policy adjustments in anticipation of a slowdown from the strong export growth that buoyed the overall economy last year. Last week, China's State Council announced a plan to cut 240 billion yuan (or $38.2 billion) in taxes for a wide swath of firms, including transportation companies, makers of construction materials, telecom operators and producers of agricultural products.

At Wednesday's briefing, senior Chinese officials criticized the Trump administration's approach to the trade disputes between the two largest economies. China Vice Commerce Minister Wang Shouwen called Mr. Trump's $100 billion trade-deficit reduction demand "totally unacceptable."

Vice Finance Minister Mr. Zhu cited a principle set by President Xi Jinping that "nobody should expect China to swallow bitter fruit."

Messrs. Wang and Zhu pointed to past experiences of solving trade frictions through dialogue and expressed disappointment that Washington was opting for unilateral measures to pressure Beijing. "Frankly speaking, we're facing huge challenges today," Mr. Zhu said.

—Liyan Qi, Liza Lin and Trefor Moss contributed to this article.

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