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CHINA

Trump Issues Tariff Threat and China Considers Pulling Out of Talks

President's warning to China takes Beijing by surprise



U.S. Trade Representative Robert Lighthizer, center, arriving in Beijing last week for trade talks. PHOTO: GREG BAKER/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Bob Davis and Rebecca Ballhaus in Washington and Lingling Wei in Beijing

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President Trump threatened to drastically ramp up U.S. tariffs on Chinese imports, a surprise twist that put an accord in doubt as Beijing considered pulling out of talks scheduled to begin this week.

In a pair of Twitter messages Sunday, Mr. Trump wrote he planned to raise levies on \$200 billion in Chinese imports to 25% starting Friday, from 10% currently. He also wrote he would impose 25% tariffs “shortly” on \$325 billion in Chinese goods that haven’t yet been taxed.

“The Trade Deal with China continues, but too slowly, as they attempt to renegotiate,” the president tweeted. “No!”

Mr. Trump’s tweets surprised many Chinese officials, according to a person briefed on the matter Monday, and China is considering canceling trade talks that are to resume in Washington starting Wednesday. There has been widespread expectations in recent days that an accord could be reached by Friday.

“China shouldn’t negotiate with a gun pointed to its head,” the person said. A decision on whether to go ahead with the talks this week hasn’t been made, the person said.

Chinese officials have said Beijing wouldn’t bend to pressure tactics. By potentially scotching the trip, Beijing would be following up on its pledge to avoid negotiating under threat.

The timing of Mr. Trump’s threat triggered speculation that it was aimed at pressuring China and scoring points domestically.

“With President Trump, you never know, but there is a good chance that this is just a threat,” said Chad Bown, a senior fellow at the Peterson Institute for International Economics. “If they announce a deal later this week, it will make it appear as if he acted as tough as possible to get the deal.”

Mr. Trump, a Republican, has long said tariffs give him leverage in trade deals, whether they involve China or allies like Canada, Mexico and the European Union.

“The president is, I think, issuing a warning here...saying, ‘Guess what, the tariffs will remain’ if China does not agree to trade negotiations,” White House economic adviser Larry Kudlow said Sunday on Fox News.

But it is far from clear that the U.S. would actually raise tariffs on Friday. That is because the U.S. trade representative may believe he needs to give U.S. industry notice of a substantial tariff change, people who follow the talks said. U.S. officials have moved slowly in implementing tariffs, fearing they could open the door to a legal challenge that could halt their use of the levies.

The prospect of an escalation of tariffs, which would boost the price of imports ranging from retail items to industrial electronic components, drew immediate fire from U.S. trade groups that import goods from China.

“Taxing Americans when they buy furniture, tools, electronics and groceries should have nothing to do with reaching this agreement,” said a statement from Tariffs Hurt the Heartland, a coalition of U.S. trade associations. “This isn’t leverage to get a better deal, it’s taking money out of the pockets of hardworking Americans.”

Rick Helfenbein, president of the American Apparel and Footwear Association, said more tariffs would “add additional obstacles to economic growth.” His group estimated that raising tariffs



Apparel firms, which use Chinese factories, say higher tariffs will cost a U.S. family of four \$500 a year. PHOTO: QILAI SHEN/BLOOMBERG NEWS

on apparel imports to 25% would raise costs for a family of four by about \$500 a year.

Mr. Trump hasn't threatened additional tariffs on Chinese goods since his Dec. 1 summit with Chinese President Xi Jinping in Buenos Aires, where the two nations started a big push to resolve a trade dispute that had rattled global markets before U.S. markets bounced back sharply. Some analysts said the latest threats could trigger renewed market declines; U.S. stock futures were lower after they resumed trading Sunday evening.

"When the president puts his foot down, it makes the market go down," said Chris Rupkey, managing director and chief financial economist at MUFG.

Mr. Trump's threats also left Chinese officials facing another urgent task early Monday morning: how to prevent the Chinese stock market from plunging on the news. A rebound in Chinese shares this year—coinciding with the trade talks—has helped boost business confidence in the world's second-largest economy.

In February, Mr. Trump said he would delay a planned increase of tariffs on \$200 billion of Chinese goods, due March 1, citing "substantial progress" on issues including intellectual property and technology transfer in the two nations' trade talks. But the two sides haven't resolved some issues that are important to both, and last rounds of negotiations invariably involve brinkmanship on both sides.

China wants the U.S. to at least start to roll back tariffs once any deal is signed. U.S. Trade Representative Robert Lighthizer, though, wants to keep tariffs in place and start removing them once China shows it is complying with terms of any agreement.

"Trump has upped the ante yet again, blindsiding the Chinese who thought they were negotiating towards a pullback of existing tariffs, not fending off new ones," said Eswar Prasad, an economics professor at Cornell University and senior fellow at the Brookings Institution. As a result, he said, the stakes are even higher now for China."

One particularly tough demand: the U.S. wants to retain the ability to reimpose tariffs if it believes China is reneging on the deal but wants to deny Beijing the ability to retaliate with tariffs of its own. The U.S. says it needs to make sure a reimposition of tariffs won't lead to a new round of trade fights. Beijing is balking at the idea that the U.S. would have unilateral ability to impose tariffs.

China is also resisting U.S. demands that Beijing open its cloud-computing market to U.S. firms and more rapidly approve U.S. agricultural products that are now held up over Beijing's claims that they aren't safe. Also at issue is how long of a period to give new U.S. pharmaceuticals protection from Chinese competition.

Those issues were all the subjects of talks last week in Beijing, which U.S. officials had said were productive. But a May 2 article in China's Global Times, which often takes a nationalist perspective, speculated that the two sides may "have hit an impasse in the tough talks."

Along with putting pressure on Chinese negotiators, the U.S. may figure that the threat of new tariffs could help Chinese trade envoy Liu He rally support for a deal among China's divided bureaucracy. Mr. Liu has long argued that China's economy should be more open to foreign competition. He and other Chinese reformers have used the threat of foreign pressure to argue that they must make changes opposed by conservative forces in China's ruling Communist Party.

That tactic, however, also carries the risk of spawning a nationalist backlash in China. In September 2018, for instance, Mr. Liu was planning a trip to Washington to continue negotiations that at the time seemed promising. About a week before he was due, however, Mr. Trump said he would go ahead with the tariffs on the \$200 billion of Chinese imports. The surprise announcement prompted Mr. Xi to cancel the trip and wait until the November elections, hoping that a Republican electoral defeat would make the U.S. more amenable to a deal.

Around the same time, U.S. markets started to fall, with analysts blaming the fight with China as one reason for the decline. Mr. Trump started to become more interested in negotiations, calling Mr. Xi on Nov. 1 to press him to discuss a deal when the two leaders met a month later in Buenos Aires.

—*Josh Zumbrun and William Mauldin in Washington contributed to this article.*

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What's next for trade talks between the U.S. and China? Join the conversation below.

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