Trump set to hike tariff threat against China

Nick Beams
2 August 2018

The Trump administration is actively considering escalating proposed tariffs on an additional $200 billion worth of Chinese goods to 25 percent from the initial level of 10 percent. After reports surfaced that the hike was being discussed, senior administration officials confirmed on Wednesday that Trump had asked the US Trade Representative Robert Lighthizer to examine it.

The US has already imposed a 25 percent tariff on $34 billion of Chinese products, with imposts on an additional $16 billion set to be enacted within days or weeks.

The additional tariff measures are in response to Chinese tariffs imposed in retaliation against the initial US levies. No final decision is expected until the end of this month, following public hearings scheduled for August 20–23. The measures, if enacted, will cover consumer goods and food as well as industrial components.

Reporting on the new tariff move, the *Wall Street Journal* said that economic advisers were justifying the hike because the Chinese currency has fallen sharply against the US dollar in recent months and is now down 6 percent from its level at the end of May.

A US official, however, denied that the increase was specifically related to the yuan devaluation, saying that China had engaged "in a whole range of things that make clear that they aren't interested in addressing all of the issues that we have raised." Trump is reported to have dismissed the proposed 10 percent tariff increase as "too weak."

"Once you go down the road of using tariffs to disrupt the Chinese, you have to say 25 percent compared to 10 percent," Derek Scissors told the WSJ. Scissors is a China specialist at the American Enterprise Institute, which advises the Trump administration on trade matters.

In addition to the levy on an additional $200 billion worth of Chinese goods, Trump has threatened to raise the figure to $500 billion, covering all of China's exports to the US.

The staff of Treasury Secretary Steven Mnuchin and Chinese Vice-Premier Liu He are reportedly continuing to hold discussions about a further meeting but the discussions remain at a "very preliminary stage."

The view in Beijing is that talks with Mnuchin are of little value because he does not have the final say on negotiations. The tariffs are being imposed under Section 301 of the 1974 Trade Act which comes under the jurisdiction of Robert Lighthizer.

"China and the US have had several rounds of consultations and reached important consensus, but regrettably the US did not fulfil its obligations." Chinese Foreign Minister Wang Yi said on Monday. "Nor did it make concerted efforts with China."

The Chinese were badly burned back in May when talks between Mnuchin and Liu resulted in an agreement by China to purchase up to $100 billion in additional US exports. Mnuchin said the trade war had been "put on hold" only to be countermanded within a few days by Trump who said talks would "probably have to use a different structure."

For Lighthizer and key economic adviser Peter Navarro, the key issue is not the US trade deficit with China but the efforts by Beijing to expand its technological and industrial base under its "Made in China 2025" program. The US has accused China of acquiring American technology through theft and technology transfers and has also railed against state subsidies to Chinese firms.

The underlying issues were revealed in the Senate Appropriations Subcommittee in Washington last Thursday. Lighthizer told the hearing that the US had a "chronic problem" with China because it used "state capitalism" to take advantage of the openness of the US economy costing jobs and wealth.

"Some issues will be dealt with in a short period of time," he said. "Directionally, we're going to have a problem with China that's going to go on for years."

During the hearing, Democrat Senator Brian Schatz from Hawaii asked Lighthizer: "How do we have leverage in a situation where they have unending patience and we have none? You don't pick stupid fights."

Lighthizer responded: "If your conclusion is that China taking over all of our technology and the future of our children is a stupid fight, then you're right, we should capitulate. My view is that's how we got where we are."

The conflict between the two sides erupted at a World Trade Organisation meeting in Geneva last week at which Deputy US Trade Representative Dennis Shea denounced China as "the most protectionist, mercantilist economy in the world."

"China's size magnifies the harm caused by its state-led, mercantilist approach to trade and investment, and this harm is growing every day and can no longer be tolerated," he said.

The accusation of "mercantilism" is a case of the pot calling the kettle black. The entire trade policy of the Trump administration, based on "America First," is premised on the assertion that trade is essentially a zero-sum game and any US deficit represents a weakening of its economic power.

The Chinese representative Zhang Xiangchen hit back, saying Beijing would not bow to US threats. "Extortion, distortion or demonization does no good to resolve the issues," he said. "Holding our feet to the fire has never worked."

While maintaining that it is not going to bow to US pressure and that China will respond to US actions, no matter what the level of goods targeted, there are clearly growing concerns in Beijing about the impact of the US trade war on its economy.

A meeting of the 25-member Politburo on Tuesday, chaired by Chinese president Xi, said government policymakers, while continuing to seek to reduce debt, would take action to promote economic growth.

The official statement issued after the meeting did not specifically mention the trade conflict with the US. However, it said the Chinese economy "faces some new problems and new challenges" and that there were "obvious changes in the external environment."

The meeting was held as reports showed that the Chinese economy is slowing with the official purchasing managers' index falling to a five-month low of 51.2 in July, down from 51.5 in June, coming slightly below economists' expectations. While the level is still above 50, showing that the economy is continuing to grow, there is concern that the trade war measures are starting to have an impact.

The top-level meeting called for measures to increase government spending on highways, railways and other infrastructure projects and said liquidity conditions should be "reasonable and adequate". This is a sign that steps to ease credit initiated over the past month will continue.

Chinese economic authorities are treading a fine line. On the one hand they are seeking to reduce the country's debt, while on the other they are trying to support companies adversely affected by the trade conflict.

For its part, the Trump administration feels emboldened by the latest US growth figures, which came in at an annual rate of more than 4 percent in the second quarter, its best three-month result since 2014. It has also been boosted by the agreement reached with the EU last week to pursue action through the World Trade Organisation against China.

The director of the National Economic Council, Lawrence Kudlow, has said that the US-EU agreement places China "in a very difficult position" and that China is "being isolated."

However, Beijing has found ways of hitting back, most notably in the scrapping of a proposed takeover by the US technology giant Qualcomm of the Dutch firm NXP. The Chinese government did not sign off on the agreement under anti-monopoly provisions.

It has been reported that Mnuchin was heavily involved in last-minute efforts to try to salvage the $44 billion deal, but to no avail.