

On eve of trade talks in Washington

Trump threatens new tariffs against China

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US president Trump has threatened to impose more tariffs on Chinese goods imported into the US ahead of talks between the top-level representatives of the two sides that start in Washington on Wednesday.

The talks, following discussions in Beijing last week, had been widely touted as putting the final touches on an agreement, so that Trump and China's president Xi Jinping could sign off on a deal later this month or in June.

But tweets issued by Trump on Sunday have cast considerable doubt on that scenario, indicating that what was to have been the final round of negotiations has run into major obstacles.

Trump threatened that the 10 percent tariff on \$200 billion worth of Chinese goods would rise to 25 percent on Friday, and that an additional \$325 billion worth of Chinese goods currently "untaxed" would "shortly" be subject to tariffs of 25 percent.

"The trade deal with China continues, but too slowly, as they attempt to renegotiate. No!," Trump wrote.

The threat to escalate tariffs, which if carried out would end any prospect of a trade deal, marks a sharp turn in the rhetoric from the US administration.

As recently as Friday, White House economic adviser Kevin Hassett said the administration was "heartened" to see progress with China, although some issues still needed to be resolved.

Trump himself kept to script of the past several months, telling reporters that "the deal itself is going pretty well. I would even say very well." He indicated that signing a deal with Beijing could be weeks away.

It is not entirely clear what prompted the sudden shift on the part of Trump, but reports on the talks have indicated that one of the major conflicts is over whether, and how fast, existing tariffs imposed by the US would be removed in the event of a deal.

The American side, headed by US Trade Representative Robert Lighthizer, has insisted that the tariffs should remain in place and only start to be removed once the US considers China is abiding by the agreement. The US has also maintained the right to impose tariffs, without retaliation from the Chinese side, if it considers China is abrogating the deal, and that such measures are crucial for any "enforcement" mechanism.

The Chinese negotiator, Vice Premier Liu He, whom Lighthizer considers to be among the "reformers" in the Chinese regime ready to reach an agreement with the US, has offered concessions. But any deal that allows the US to impose what Beijing regards as "unequal treaties" is a bridge too far. China has insisted that any enforcement mechanism must be a two-way street.

At the very least, Beijing maintains that the US must start to roll back some of the tariffs it has imposed, as part of any agreement.

Another factor in Trump's about-turn could be intensifying pressure from anti-China hawks both within the administration and in the Republican and Democratic parties who are ready to denounce any agreement they regard as being "weak."

On Friday, the head of the AFL-CIO, Richard Trumka, said Trump risked reaching an "inferior agreement" if it did not include the use of state subsidies to Chinese industry. This is a key demand of the anti-China hawks. They insist that the issues go far beyond trade and that China's efforts to move up the value chain in key areas of industrial production and technology constitute an existential threat to the global dominance of the US.

In an interview with the *Financial Times*, Trumka said he had not seen anything "very earth shattering or

very helpful” in what had emerged from negotiations so far.

He said the Chinese “circumvent comparative advantage by underwriting the cost of their uncompetitive industries or by targeting an industry and subsidising [it]. That has to come to a screeching halt. If the agreement doesn’t do that, and give us a way to enforce it, then it will be an inferior agreement,” he said.

Repeating the right-wing nationalist populism which is one of the hallmarks of the pro-imperialist union bureaucracy, Trumka said it would be a “colossal mistake” if the deal favoured billionaires and went on the side of Wall Street. “It will continue to hurt our economy and our ability to be a world power, because we are losing that capacity.”

The leading Democrat “left” Bernie Sanders has also joined in, attacking former Vice President Joe Biden for downplaying the economic threat posed by China, saying it was wrong to pretend that China is “not one of our major economic competitors.” “When we are in the White House we will win that competition by fixing our trade policies,” he said (see: “Bernie Sanders attacks Biden from the right on China trade”).

Former Trump adviser, the ultra-rightwing nationalist Steve Bannon, who maintains a close connection with both Lighthizer and White House trade adviser Peter Navarro, said “right now the hawks on both sides are winning.” He cited Chinese Vice President Wang Qishan as one of those in Beijing “who don’t think China should submit to American terms.”

Both sides emerged from last week’s discussions in Beijing saying they had been “productive”. But an article in China’s nationalist *Global Times* warned that the two sides may “have hit an impasse in tough talks.”

Trump’s tweets are no doubt aimed at putting intense pressure on Chinese negotiators when they sit down with Lighthizer and Treasury Secretary Steven Mnuchin on Wednesday. But they could have the effect of completely blowing up the talks.

China expert Eswar Prasad, economics professor at Cornell University and senior fellow at the Brookings Institution, told the *Wall Street Journal* the latest Trump threats would “further complicate the negotiations” and “heighten distrust.”

“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,” he said.

The stakes are now even higher for Chinese negotiators who risk being seen as “cravenly caving in to US demands in the face of Trump’s blustery threats.”

It is not clear how financial markets will react, but there could be a major response.

The *Financial Times* reported that US business groups, which had mostly been pushing for an agreement, “reacted to Trump’s threat of a new escalation with dismay.”

Rick Helfenbein, president of the American Apparel and Footwear Association, said: “We urge the president to refrain from imposing these additional tariffs and instead focus on negotiating the trade deal with China.”

In a note to investors, Chris Rupkey, chief financial economist at MFUG Union Bank in New York, said markets have been “lulled to sleep” on the expectation that a trade deal was in the making and had put the trade war in the rear vision mirror as they reached near-record highs.

“This has all the makings of a complete disaster and that could lead to the stock market crater,” he said in response to the latest Trump threat.



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