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Trade War With China Looms as Midnight Tariff Deadline Approaches

By Ana Swanson

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WASHINGTON — President Trump's repeated threats to start a trade war with China appear headed for reality as the administration prepares to impose tariffs on $34 billion of Chinese products on Friday morning, setting up a potentially devastating clash between the world's two largest economies.

The penalties, which go into effect at 12:01 a.m. on Friday, are expected to prompt immediate retaliatory tariffs by Beijing, which has said it will tax an equal amount of American exports, including pork, soybeans, steel and peanuts. The dispute is expected to ripple through global supply chains, raise costs for businesses and consumers and roil global stock markets, which have been volatile in anticipation of a prolonged trade fight between the United States and almost everyone else.

The Trump administration is fighting trade spats on multiple fronts as it imposes tariffs on foreign steel, aluminum, solar panels and washing machines from countries like Canada, Mexico, the European Union and Japan. But the tariffs on China, the world's largest manufacturing hub, will affect a much larger share of products and a greater percentage of companies that rely on global supply chains, potentially hurting American companies more than Chinese firms.

By Friday morning, companies like Husco International, a Wisconsin-based manufacturing company that makes parts for companies like Ford, General Motors, Caterpillar and John Deere, will face a 25 percent increase on a variety of parts imported from China. Austin Ramirez, Husco International's chief executive, said that increase would immediately put him and other American manufacturers at a disadvantage to competitors abroad.

"The people it helps most of all are my competitors in Germany and Japan, who also have large parts of their supply chain in Asia but don't have these tariffs," he said.

If China responds with its own tariffs, as expected, it will join other countries that have also retaliated, bringing the total value of affected American exports to approximately $75 billion by the end of the week. That is still a small fraction of the $1.55 trillion of goods the United States exported last year, but in some industries the pain will be intense.

Research by Mary Lovely, an economics professor at Syracuse University and senior fellow at the Peterson Institute for International Economics, suggests that non-Chinese multinational corporations operating in China will often pay a larger share of the tariffs than Chinese firms. For example, non-Chinese companies export 87 percent of computer and electronic products from China to the United States, while Chinese firms send only 13 percent, according to Ms. Lovely's research.

"I think you're going to see an effect on the longer-term view of the U.S. as a place to export," Ms. Lovely said. "These tariffs are not hitting the mark, and they're making it much harder for American firms to do business inside the United States, let alone export markets."

While the tariffs affect a relatively small share of trade, Ms. Lovely said the uncertainty that the Trump approach had created for companies could backfire on the administration, eroding the capacity of firms in the United States to export to China and other nations.

The Trump administration's aggressive stance toward China is aimed at pressuring the country to curtail what the White House describes as a pattern of unfair trade practices and theft of American intellectual property. The two countries had been in talks in which China proposed to reduce some barriers to foreign companies and increase its purchases of American products. But the Trump administration has said the pledges fell short, and formal negotiations have lapsed in recent months.

It is unclear how the trade war might end or whether it will end at all. As trade actions between Washington and Beijing escalate, it is growing harder for the countries' leaders to walk back from the brink.

Eswar Prasad, a professor of international trade at Cornell University, said the economic damage from a trade war seemed to have become a secondary issue for Mr. Trump and President Xi Jinping of China, who have not backed down from talking tough on trade.

"The internal political dynamics in each country could make it difficult to contain or find an exit path from escalating trade hostilities," he said.

The Trump administration designed its tariff list to try to spare consumers, and many of the products that American families purchase from China, from flat-screen TVs to shoes, will not be hit on Friday. But in the process, the tariffs instead focus heavily on the kind of intermediate inputs and capital equipment that businesses purchase. Economists say that will raise costs for American industry, potentially threatening the manufacturing jobs that Mr. Trump has long said he wants to protect.

The trade spat will also reverse some of the gains that the Trump administration has negotiated with China in past months — including China's agreement to cut its 25 percent tariff on cars to 15 percent beginning July 1. Chinese officials have said they would impose a 25 percent tariff on American cars in response to the Trump administration's trade actions.

The United States also plans to impose a second round of tariffs on $16 billion of Chinese products soon, another action China has said it would respond to in kind. In total, Mr. Trump has threatened tariffs on up to $450 billion of Chinese products if Beijing refuses to capitulate.