China Reacts to Trade Tariffs and Hong Kong Protests by Blaming U.S.

By Alan Rappeport   Aug. 1, 2019

President Trump's move will most likely be met with reciprocal punishment by President Xi Jinping of China.Erin Schaff/The New York Times

WASHINGTON — President Trump, frustrated by increasingly fruitless negotiations with China, said Thursday that the United States would impose a 10 percent tariff on an additional $300 billion worth of Chinese imports next month, a significant escalation in a trade war that has dragged on for more than a year.

The new tariff would come on top of the 25 percent levy that Mr. Trump has already imposed on $250 billion worth of Chinese imports, resulting in the United States taxing nearly everything China sends to the United States, from iPhones to New Balance sneakers to children's books.

Mr. Trump had agreed in June not to impose more tariffs after meeting with the Chinese president, Xi Jinping, and agreeing to restart trade talks. But Mr. Trump said he was moving ahead with the levies as of Sept. 1 as punishment for China's failure to live up to its commitments, including buying more American agricultural products and stemming the flow of fentanyl into the United States.

"Until such time as there is a deal, we'll be taxing them," Mr. Trump told reporters on the White House lawn.

Mr. Trump's move will most likely be met with reciprocal punishment by China. On the sidelines of a meeting of Southeast Asian officials in Bangkok on Friday, Wang Yi, China's foreign minister, told reporters that "adding tariffs is definitely not the correct way to resolve economic and trade frictions."

New tariffs would increase the likelihood that the world's two largest economies will be locked in a protracted trade dispute for months, if not years. While the countries continue to negotiate, the path to a deal has only narrowed as Beijing and Washington harden their positions and as political dynamics, including the 2020 election, further complicate the chances for a compromise.

The United States has insisted that China buy more farm goods and agree to cement certain changes into Chinese law. Beijing has resisted codifying any changes into law and has said it will only enter into a deal that is mutually beneficial. Both sides seem increasingly confident they can wait out the trade war indefinitely.

On Thursday, Mr. Trump's building frustration with the grinding pace of the negotiations boiled over.

"We thought we had a deal with China three months ago, but sadly, China decided to re-negotiate the deal prior to signing," Mr. Trump said on Twitter. "More recently, China agreed to buy agricultural product from the U.S. in large quantities, but did not do so."

The president said that China also did not fulfill its commitment to stop the sale of fentanyl into the United States.

As he departed the White House for a rally in Ohio, Mr. Trump accused Mr. Xi of trying to slow-walk negotiations ahead of the 2020 election in the hopes that a Democrat would win the White House.

"I think he wants to make a deal, but frankly he's not going fast enough," Mr. Trump said. "He said he was going to be buying from our farmers, he didn't do that. He said he was going to stop fentanyl from coming into our country, he didn't do that."

He added that the tariffs could be raised to 25 percent or higher if the talks continue to falter, but allowed that they could also be removed.

The stock market reacted negatively to Mr. Trump's comments. The S&P 500 had been up 1 percent shortly before 1 p.m., with strong gains seen among technology companies such as semiconductor makers. But the market tumbled sharply after the threat to impose the new tariffs appeared on Twitter. The drop erased all the day's gains and more, sending the benchmark stock index into the red. Shortly before 2 p.m., the S&P 500 was down about

1.1 percent. It closed down 0.9 percent, led by drops in the energy and financial sectors, both of which fell more than 2 percent.

Oil prices, which are sensitive to global growth concerns, also fell sharply.

The slump continued in Asia on Friday morning, with markets in Japan and Hong Kong down more than 2 percent. Futures markets were predicting that Wall Street would open lower on Friday, too.

The decision came one day after the president's top advisers returned from two days of trade talks with their Chinese counterparts in Shanghai. There were few signs of real progress, and both sides released perfunctory statements when the meetings concluded, saying there would be additional discussions in Washington next month.

Talks have been complicated by the recent emergence of Zhong Shan, China's commerce minister, as a lead negotiator for the Chinese, according to a person familiar with the discussions. Mr. Zhong's role has signaled to some in the Trump administration that the hard-liners in China are winning the debate over the reformers, such as Vice Premier Liu He, who are more open to making structural economic changes that the United States wants.

After little of substance was accomplished during the talks in Shanghai this week, officials in the Trump administration grew increasingly wary that China is retreating to its pattern of using mixed messages and delays to wait out Mr. Trump.

Before the talks even began, Mr. Trump took to Twitter to berate China for failing to buy American farm goods and to play down the potential for a deal before the election.

For more than a year, negotiators from the United States and China have been shuttling back and forth to discuss a trade agreement that Mr. Trump has described as potentially the largest transaction in history. The United

States has been pushing China to open its markets to American businesses, respect American intellectual property, buy more American agricultural products and stop manipulating its currency. After an agreement appeared close last spring, talks collapsed after Beijing refused to certain demands and Mr. Trump accused China of breaking the deal.

Mr. Trump and Mr. Xi agreed to restart negotiations after meeting at the Group of 20 summit in Japan in June. Mr. Trump said he would postpone tariffs on another $300 billion worth of imports and allow American companies to continue selling some technology to a Chinese telecom giant, Huawei, that had been placed on a government blacklist.

In return, Mr. Trump said that China had agreed to "immediately" begin buying American farm products, like soybeans. But those purchases have yet to happen.

China has been preparing to make agricultural purchases, and on Sunday the state-run Xinhua News Agency reported that millions of tons of American soybeans had been shipped to China. But elsewhere, Chinese officials have continued to insist that they are not making purchases as a condition of the talks. On Wednesday, Xinhua characterized China's agreement to buy more American farm products as being "according to its own domestic needs and favorable conditions to be offered by the U.S. side for the purchase."

While Mr. Trump described the 10 percent tariff as "small," it will further compound economic damage from his long-running trade war. Unlike his previous tariffs, this round would hit a broad swath of consumer products and could dampen consumer spending at time when economic growth has already begun to cool.

On Wednesday, the Federal Reserve lowered interest rates in part because of the spat with China, which threatens to crimp the economic expansion. Jerome H. Powell, the Fed chair, said the quarter-point cut, the Fed's first since the depths of the 2008 financial crisis, was "intended to ensure against downside risks from weak global growth and trade tensions." Mr. Powell said that Mr. Trump's trade fights "do seem to be having a significant effect on financial market conditions and the economy."

Markets, which had pulled back their expectations for future rate cuts on Wednesday, moved toward pricing in two more reductions by year-end following Mr. Trump's decision.

"Tariff Man is alive and well," said Michael Pillsbury, a China scholar at the Hudson Institute who advises Mr. Trump.

Mr. Pillsbury said that officials from China had miscalculated their belief that Mr. Trump had lost his appetite for the trade war.

After Democratic presidential candidates took to the debate stage this week to criticize Mr. Trump's China policy and muse about the possibility of returning to the Trans-Pacific Partnership to corral China, the president demonstrated that he would not be deterred from using more tariffs as his negotiating tool of choice.

"Trump is essentially confirming the seemingly inevitable escalation of the trade war that seems in prospect, given the gulf in negotiating positions and the broken trust between Chinese and U.S. negotiators," said Eswar Prasad, the former head of the International Monetary Fund's China division. "Both sides now seem to be settling in for a broad and unremitting trade war that will last at least through this term of Trump's presidency."

Caught in the middle are businesses and consumers, who are being pinched by the tariffs through higher costs and retaliatory punishment. Farmers, in particular, have been hurt as Beijing has slowed its purchases of farm products.

Because many more goods flow from China to the United States than in the other direction, China has not been willing or able to match Mr. Trump's tariffs dollar for dollar. But company executives say the Chinese government has used other painful methods to retaliate against them — surprise inspections, rejections for licenses, and China's move to roll out a list of "unreliable entities" that Beijing has threatened to take action against.

In June, hundreds of businesses across the United States sent representatives to the Office of the United States Trade Representative to express their concerns about the prospect of more China tariffs. The additional tariffs would hit a wide range of products, including toys, electronics, sporting goods, household appliances, books and food.

An administration official said that the office would soon finalize the list of Chinese products that will face new tariffs. Business groups are bracing for the worst.

"The tariffs imposed over the past year haven't worked, and there's no evidence another tax increase on American businesses and consumers will yield new results," said David French, the senior vice president for government relations at the National Retail Federation. "We are disappointed the administration is doubling down on a flawed tariff strategy that is already slowing U.S. economic growth, creating uncertainty and discouraging investment."

Despite the additional tariffs, Mr. Trump said that the trade talks between the United States and China in Shanghai this week were "constructive" and that he looked forward to more "positive dialogue" between the countries.

A delegation from China was scheduled to come to Washington for more trade talks next month, but it is not clear if the new tariffs will change those plans.

Jeanna Smialek contributed reporting from Washington, Matt Phillips from New York and Alexandra Stevenson from Beijing.

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