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WORLD

China Threatens to Impose Tariffs on \$60 Billion of U.S. Products

Beijing also moves to rein in the yuan's rapid depreciation



Beijing threatened Friday to impose tariffs on \$60 billion of U.S. products. Above, a Ford worker inspects paint work on the body of a Ford Expedition SUV at a Kentucky plant. PHOTO: NICK CAREY/REUTERS

By *Lingling Wei in Beijing and Bob Davis in Washington*

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BEIJING—China is planning to impose tariffs on a majority of its U.S. imports, a move designed to match the Trump administration's tariff threats blow-for-blow that is bound to further intensify trade tensions between the world's two largest economies.

After President Donald Trump raised the ante earlier this week on China by threatening to more than double proposed duties on Chinese imports, the State Council, China's cabinet, on Friday released a list of \$60 billion worth of U.S. goods to hit with tariffs. The planned levies, on imports ranging from farm products and machinery to chemicals, range from 5% to 25%.

The planned Chinese penalties come on top of the tariffs on \$50 billion in American goods on which Beijing already has imposed or said it would impose, bringing the total amount of U.S. products potentially subject to Chinese tariffs to \$110 billion—or 85% of U.S. goods entering China last year, according to U.S. statistics. Mr. Trump has threatened to apply tariffs to all \$505 billion worth of Chinese imports to the U.S.

With the move, Beijing is following up on its pledge to hit back at the Trump administration's trade policies. As President Xi Jinping seeks to elevate China's role in global affairs by challenging American dominance, he has made it clear to both Chinese officials and global business leaders that he has settled on an unyielding approach in dealing with Washington.

"Any unilateral threat or blackmail will only cause conflicts to intensify and damage the interests of all parties," the State Council said in a statement.

Among the additional \$60 billion U.S. goods that could be subject to tariffs: some 662 kinds of products including small and medium-size airplanes and computers that could be hit with a 5% duty; nearly 1,000 products including coffee beans and textiles that could be slapped with a 10% duty; another more than 1,000 products such as chemicals and deodorant that could be levied

at 20%; some 2,493 products such as meat, wine and liquefied natural gas that could be levied at 25%.

China's State Council said the date for implementing the additional \$60 billion tariffs will be subject to the actions of the U.S. "China reserves the right to continue to introduce other countermeasures," it said in the Friday statement.

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Beijing's tariff options are limited by the level of its U.S. imports—totaling \$153.9 billion by Chinese measurements—so Chinese authorities are resorting to other means to hit back at the U.S.

Such measures so far have included increasing checks of American products at borders, delaying licenses for U.S. businesses and essentially blocking Qualcomm Inc.'s \$44 billion planned acquisition of NXP Semiconductors .

The latest Chinese action comes even as some of Mr. Trump's advisers hold out hope that the two sides can renew negotiations and help settle the market-rattling trade dispute before either government carries out its latest threats.

"Talks have stalled but in recent days I can report that there has been some communication for the first time in a good while...at the highest levels," National Economic Council Director Laurence Kudlow told reporters Friday.

U.S. Treasury Secretary Steven Mnuchin and President Xi's economic envoy, Liu He, and their teams, have been in conversations about a possible meeting, but the talks remain at a preliminary stage. Mr. Kudlow didn't say if he was referring to those talks, or if other administration officials had also been in touch with their Chinese counterparts in recent days.

Some Trump advisers, such as Messrs. Kudlow and Mnuchin, are advocating more negotiations. Others are more skeptical, including U.S. Trade Representative Robert Lighthizer and White House trade adviser Peter Navarro. They argue that the U.S. needs to continue adding tariffs on Chinese goods to pressure Beijing to make the trade concessions sought by the U.S., according to people familiar with the White House debate.

The two camps are deeply suspicious of one another.

The White House believes it has a strong hand in the trade fight with Beijing, given the strength of the U.S. economy and a recent deal with the European Union to ease trade tensions. "China is not going to dominate our economy," Mr. Kudlow said. "They are the ones with the lousy economy...Look at their stock market. Look at their currency. They're the ones in trouble, not us. We're doing great."

In a brief statement, White House spokeswoman Lindsay Walters said that "instead of retaliating, China should address the longstanding concerns about its trading practices."

The Chinese leadership, on the other hand, is counting on the Communist Party's tight grip on the government, media and society, which allows Mr. Xi to impose his policies without public debate or second-guessing from rivals. As part of an effort to prepare for a long-running trade conflict with Washington, Beijing recently shifted its economic focus toward stabilizing growth from controlling debt.

The Chinese government has been easing both monetary and fiscal policies to boost domestic demand as the Chinese economy faces strengthening headwinds, from weakening consumption to slowed production and investment. An expected sharp drop in exports, as a result of the trade fight with the U.S., could put growth further at risk.

In a sign of growing worries of the Chinese economy, investors on Friday bid down the yuan to its weakest level in more than a year. That prompted China's central bank to move to rein in the yuan's depreciation and issued a new rule aimed at making it more expensive to bet against the currency. The tightly-controlled currency has weakened about 6% against the dollar over the past two months.

"China's capitulation to U.S. demands, which the Trump administration seems to view as the only viable endgame, is an unlikely outcome given China's domestic political imperative of not

being seen as weak and caving in to the U.S.," said Eswar Prasad, a Cornell University economist and a former senior International Monetary Fund China specialist.

Relations between the two nations have been tense over the Trump administration's efforts to address the U.S.'s \$376 billion trade imbalance with China and to punish China for alleged pilfering and pressure tactics to acquire U.S. technology. Last month, both the U.S. and China applied tariffs to \$34 billion of each other's goods. Another set of duties on \$16 billion in goods is scheduled for the days ahead.

On Wednesday, Mr. Trump turned up the pressure on China by threatening to sharply increase the 10% tariff to 25% on \$200 billion in Chinese imports. A final decision on the rate isn't expected until September at the earliest.

Beijing officials indicate that China won't be willing to commit to another round of negotiations with Washington unless the White House can decide on a point person to deal with China.

Advisers to Mr. Trump stress that only he calls the shots on trade policy. On Monday, for instance, when his trade team discussed the latest round of U.S. tariff plans on \$200 billion in Chinese imports, there was discussion of Chinese yuan depreciation and other recent factors, say people familiar with the discussions. President Trump wasn't interested in the nuances of the conversation, they say. Rather, he thought 10% tariff was too weak. Instead, 25% would have an impact, he figured. The White House later announced the U.S. was now looking at 25% tariffs.

Rep. Kevin Brady (R., Texas), chairman of the House Ways and Means Committee, has urged that President Trump and Chinese President Xi to meet and work out a trade deal. But that is unlikely, say U.S. trade advisers, who figure that the two leaders will probably meet only to complete a deal.

—Vivian Salama contributed to this article

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