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Trump considers 25 percent tariff on $200B of Chinese goods

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The Trump administration on Wednesday escalated fears of a damaging trade war with China by announcing it could hit $200 billion worth of Chinese industrial and consumer goods with a 25 percent tariff, up significantly from the 10 percent duty that it initially proposed.

"Ten percent was bad, 25 percent is even worse," Christin Fernandez, vice president at the Retail Industry Leaders Association, told POLITICO. "This new tranche hits so many consumer products, many of which have no sourcing alternative other than China. Increasing the size of these tariffs will only hurt American families and the millions of American retail jobs supported by trade."

Other business sectors — including technology, chemical and farm groups — also expressed alarm at the proposed move, which is the latest in a series of tit-for-tat actions with China that has already jeopardized U.S. farmer sales to one of their biggest markets and increased costs for many U.S. manufacturers.

Some analysts said they believed a roughly 8 percent drop in the value of the Chinese currency since April had prompted Trump's more hawkish trade advisers to argue in favor of raising the duty on the third tranche of goods to 25 percent, from 10 percent.

That’s because a lower-valued yuan offsets some of the price impact of imposing tariffs on Chinese goods. That in turn could thwart Trump’s goal of reducing imports and narrowing the U.S. trade deficit with China, which totaled $375 billion in 2017.

However, in a call with reporters, officials played down the significance of any one factor in prompting Trump to look into the higher duty. "China has engaged in a whole range of things that make clear that they're not interested in dealing with the issues that we've raised. And so I would hesitate to attribute it to any one specific action,” a senior administration official said.

If Trump carries through on its latest escalation threat, it could result in many unintended casualties across many sectors of both of the world‘s two largest economies.

"Approximately $16.4 billion of the imports targeted are chemicals and plastics products,“ Cal Dooley, president and CEO of the American Chemistry Council, said. “Small and medium-sized enterprises in particular are at risk of being put out of businesses by a cost increase of that kind.“

"We implore the president to let this be the final provocation and negotiate with China to bring an end to this trade war," Dooley added.

On that point, a senior administration official said they were communicating with Beijing about the potential for a negotiated settlement, but don't have any dates for a meeting to announce.

Many trade experts believe a deal can only be reached in direct talks between Trump and Chinese President Xi Jinping — similar to a meeting between Trump and European Commission President Jean-Claude Juncker last week that has eased trans-Atlantic trade frictions. But Trump and Xi have no scheduled meetings until November, when both will attend regional summits.

The proposal to hit $200 billion worth of Chinese goods with an additional 25 percent duty, instead of the 10 percent level announced earlier, "is intended to provide the administration with additional options to encourage China to change its harmful policies and behavior and adopt policies that will lead to fairer markets and prosperity for all of our citizens," U.S. Trade Representative Robert Lighthizer said in a statement.

Trade experts say a 25 percent duty on $200 billion worth of Chinese goods would probably pack a much bigger punch than a 10 percent — on China, U.S. companies and consumers.

It’s much more likely to be a “prohibitive duty” that effectively shuts down trade and forces American companies to shift their supply chains out of China, Dan Ikenson, director of the Center for Trade Policy Studies at the Cato Institute, said.

Earlier on Tuesday, China reacted harshly to news reports that the administration was considering the move.

"U.S. pressure and blackmail won't have an effect. If the United States takes further escalatory steps, China will inevitably take countermeasures and we will resolutely protect our legitimate rights," Geng Shuang, a spokesman for the Chinese foreign ministry, told reporters at a briefing.

To date, President Donald Trump has slapped a 25 percent duty on $34 billion worth of Chinese goods and laid the groundwork to do so in the coming weeks on another $16 billion worth of Chinese goods. The list of targeted goods includes mostly industrial products from sectors that Beijing has targeted for world dominance under its “Made in China 2025” plan.

However, the longer — and pricier — the U.S. tariff list gets, the further it gets away from that initial target. It also could raise the prices that consumers pay on a host of goods, as tariffs are essentially a tax on end users collected by the U.S. government. As a result, the administration’s new move prompted a furious reaction from the National Retail Federation.

“We said before that this round of tariffs amounted to doubling down on the recklessness of imposing trade policy that will hurt U.S. families and workers more than they will hurt China,” Matthew Shay, the group’s president and CEO, said in a statement. “Increasing the size of the tariffs is merely increasing the harm that will be done.”

China has responded to Trump’s initial tariffs by imposing a 25 percent duty on $34 billion worth of American goods, including soybeans and a multitude of other farm goods. It has also threatened to continue matching Trump’s actions, through one means or another.

China imported just $130 billion worth of U.S. goods last year, compared with the $505 billion worth of Chinese products that the United States imported. But Beijing has a variety of other ways it can make life difficult for American companies, even if it can’t match Trump’s duties on a dollar-for-dollar basis.

"When the U.S. first imposed tariffs on $34 billion of Chinese products, China quickly followed suit and American farmers continue to bear the brunt of their retaliation," Casey Guernsey, a spokesman for Americans for Farmers & Families, a pro-trade association, said. “With 25 percent tariffs on $200 billion of Chinese products, there is no doubt China would again do the same to America’s exporters."

The Trump administration argues its duties are a justified response to decades of predatory Chinese trade practices, including the theft of U.S. intellectual property and forced technology transfers. However, many sectors of the economy have hoped that the administration would be more strategic in combating those issues.

"By doubling down on tariffs, we're forcing American businesses and entrepreneurs to incur costs that make them uncompetitive," added Sage Chandler, vice president of international trade at the Consumer Technology Association. “We urge the Trump administration to roll back its proposal and continue negotiations with China."

When China retaliated to the initial U.S. duties of $34 billion, Trump upped the ante by beginning proceedings to impose a 10 percent duty on another $200 billion worth of Chinese goods. The Office of the U.S. Trade Representative has already begun taking public comments on that proposal and will hold four days of public hearings scheduled Aug 20-23.

Because the administration is now considering a 25 percent duty on the $200 billion, USTR will extend the public comment period until Sept. 5 instead of Aug. 30, the administration officials said Wednesday.

Trump has also threatened to slap duties on all $505 billion worth of China’s exports to the United States if Beijing continues to retaliate against his actions.

A 25 percent tariff increase is much harder for U.S. manufacturers to pass onto their customers so they might end up eating the cost to maintain market share, said Bill Reinsch, a senior adviser at the Center for Strategic and International Studies.

But for any company that can’t afford to each the cost, they’ll be “forced to alter their supply chains to find parts and component manufacturers in other countries,” Reinsch added. “That’s probably what Trump wants, so he would say that’s not a bad thing, but U.S. companies wouldn’t agree with him.”