

## Trump reaching limit on China tariffs — but has other tools

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August 7, 2019

President Trump has nearly reached the limit in terms of what he can do with tariffs as part of the trade war with China and would have to use other tools to increase pressure.

Monday's announcement that the Treasury Department is designating China as a "currency manipulator" indicates that the administration's next move would be to use non-tariff financial means, such as blocking Chinese investment in the U.S.

"We're tapping out in terms of what we can do at the border, but there are things we can do behind the border," said Daniel Ujzco, a trade policy layer with the firm Dickinson Wright. "More regulations, tighter national security, foreign investment restrictions. All of these things have been lurking below the surface."

Designating China as a currency manipulator is mostly symbolic on its own terms. Technically, it means the U.S. is sending a complaint to the International Monetary Fund that China isn't playing fair. The IMF is unlikely to agree on this point based on its own definition of currency manipulation, but even if it did, it lacks the ability to make a country to change its exchange rate or to tell currency dealers what to do. The significance of the Treasury's announcement is that it is saying it may take action on its own.

"The way the IMF and the World Bank work is that we have all agreed to treat everybody the same as long as they are playing by the rules. By saying that China is not playing by the rules, it allows the U.S. to put sanctions on to a much larger degree," Ujzco said. "It is basically a release button that says if the U.S. wants to do more than those at-the-border things and instead do things on the financial services side, it can."

"Once China is labeled as a currency manipulator, it gives the U.S. freedom to basically start making use of other monetary tools. It changes the minimum standards of treatment that U.S. would have to apply," he said. For example, the type of restrictions the Trump administration has placed on Huawei, the Chinese telecommunications company, could start being applied to other Chinese firms.

There are number of potential non-tariff penalties, noted Gary Hufbauer, nonresident senior fellow for the Peterson Institute for International Economics. "It could create a very tight screening process for outward foreign investment by U.S. firms or even, in extreme cases, prohibitions on new investment," he said. Trump could even force countries to repatriate

investments they made in China or limit travel to the U.S. by Chinese government officials or businessmen.

While the White House is reaching the limit in terms of what it can do with tariffs, it still has wiggle room. The newly announced tariffs on \$300 billion worth of Chinese goods, on top of existing tariffs on \$250 billion worth of goods, would effectively cover all imports from China. However, the White House could raise the tariff rates higher, a threat Trump made last week. The \$300 billion round of tariffs were originally set to be 10%, but the president said they could go to 25% or even higher than that. Doing so would be as simple as placing a notice in the Federal Register stating the new rate.

"There is nothing very scientific about these tariff levels, and they could go higher if the administration wanted," said Simon Lester, trade policy analyst for the free-market Cato Institute. "If they keep changing them, though, it all starts to look a bit arbitrary, and they could get challenged in court, but past experience suggests they are willing to take that risk."