



Washington Examiner

December tariffs loom as sticking point in completion of 'phase one' deal with China

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October 15, 2019

The status of a round of China tariffs set for December is emerging as a major factor in determining whether Friday's tentative "phase one" trade deal between the White House and Beijing is completed. Chinese officials are signaling that they want the December tariffs to be put on hold, while the Trump administration is sticking by them.

"The thing to look for is the tone of comments in the coming weeks," said Simon Lester, trade policy expert with the free-market Cato Institute. "It already sounds like the Chinese are questioning whether there really is a deal and suggesting that perhaps they want the Dec. 15 tariffs to be part of the current agreement in order for the signoff."

The Trump administration plan is to put 15% tariffs on \$80 billion in Chinese goods, which would add to existing 25% tariffs on \$250 billion worth of goods and 15% tariffs on \$300 billion worth of goods. While Friday's deal postponed other tariffs scheduled to go into effect Tuesday, the December ones were left out of the agreement. White House officials have indicated leaving the tariffs as scheduled gives them leverage to ensure China follows through with its obligations under the deal.

"I have every expectation if there's not a deal, those tariffs would go in place, but I expect we'll have a deal," Treasury Secretary Steven Mnuchin said Monday.

Nevertheless, the two sides have a long way to get there Mnuchin admitted, noting the deal covers intellectual property rights, financial services, currency, and China's agricultural policies. None of those elements have been written down. "We have reached a fundamental agreement, and now it is subject to making sure the document reflects that," the treasury secretary said.

Beijing reportedly wants additional talks before it commits to Friday's deal, however. A report Monday by CNBC said they wanted the December tariff hikes to be suspended as well.

In short, the White House wants to use the threat of the December tariffs to get concrete commitments, but Beijing doesn't want to make any commitments until the December tariffs are off the table, noted Gary Hufbauer, nonresident senior fellow for the Peterson Institute for International Economics.

"I'm sure the Chinese will give assurances on all the [discussed] issues, but I wonder whether they will give commitments that could be taken to an arbitration panel — World Trade Organization or bilateral. If there's nothing concrete, I guess the December tariffs will go into force," Hufbauer said.

Lester said he wasn't certain that the White House will want to follow through even if it wants to punish China. "I get the sense the administration has real concerns about the state of the economy, so it may be that they are reluctant to go ahead with the new tariffs," he said. "Any sign of additional weakness in the economy would make it less likely that the new tariffs would be imposed."