Trade war looms as U.S. hits China with $60-billion in tariffs

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U.S. President Donald Trump's plan to hit US$60-billion worth of Chinese goods with tariffs threatens to spark a protracted trade war between the world's two largest economies and send a shudder through international commerce.

The move – which may also include restricting Chinese investment in the United States and launching a World Trade Organization case against Beijing – is retaliation for China forcibly taking, and sometimes allegedly stealing, U.S. technology.

It is also meant to start erasing Washington's US$385-billion trade deficit with Beijing, which Mr. Trump blames for the hollowing out of the U.S. manufacturing sector.

It is the most aggressive act in the President's protectionist trade agenda, a key plank of the nationalistic platform that carried him to power. It comes on the heels of hefty U.S. tariffs on steel and aluminum, primarily aimed at stopping cheap Chinese metal from getting into the U.S. market. The United States is also renegotiating NAFTA with Canada and Mexico, and reopening its trade deal with South Korea.

The tariffs are expected to target high-tech and heavy-manufacturing sectors, including mobile communications, electronic equipment, aerospace, pharmaceuticals and rail components.

Early Friday, China's Ministry of Commerce issued its first reprisals, threatening new tariffs aimed at around US$3-billion in U.S. exports to China, covering some 128 different goods. China intends to impose 25-per-cent duties on pork and recycled aluminum, as well as 15-per-cent tariffs on fresh fruit, nuts, wine, ginseng and steel pipes.

The ministry cast the new duties as a response to U.S. duties on aluminum and steel, rather than to the new measures outlined by the White House on Thursday. It threatened legal action under the World Trade Organization and accused the United States of having "severely damaged the multilateral trade system."

The consequence could be higher prices for U.S. consumers and a blow to companies that are subject to China's response. Markets gyrated at the news, with the Dow Jones Industrial Average dropping nearly 3 per cent on Thursday.

The White House had said earlier in the day that $50-billion of Chinese goods would be targeted, but Mr. Trump added another $10-billion at a White House event announcing the order.

"Any way you look at it, it is the largest [trade] deficit of any country in the history of our world. It's out of control," the President said. "We have a tremendous intellectual-property theft situation going on which, likewise, is hundreds of billions of dollars. And that's on a yearly basis."

Mr. Trump cryptically warned that his order against China would be "the first of many."

China struck a defiant posture on Thursday in an angry video posted to Facebook – which is censored in China – featuring Cui Tiankai, its ambassador to the United States.

"Let me assure those people who intend to fight a trade war. We will certainly fight back. We will retaliate," he said. "If people want to play tough, we will play tough with them and see who will last longer."

Beijing described Washington's move as "self-defeating" and warned that U.S. companies, consumers and markets would suffer.

The details of the tariffs have not yet been worked out. Mr. Trump's executive order directs U.S. Trade Representative Robert Lighthizer to publish a list of goods to be subject to tariffs in 15 days. That will be followed by 30 days for public comment, and a final decision.

Treasury Secretary Steve Mnuchin will have 60 days to decide on investment restrictions.

Two senior administration officials said the tariffs would be targeted at the sectors China has publicly identified as its priorities to develop by 2025. These are the industries where the United States believes China is most determined to steal technology from U.S. companies and use government subsidies to give domestic firms an unfair advantage over foreign competitors.

The sectors include the manufacturing of airplanes, rail equipment, electric cars, ships and agricultural implements, as well as a range of high-tech industries, such as integrated circuits, 5G technology, artificial intelligence, robots and pharmaceuticals.

China has long been accused of forcing foreign companies to hand over their technology as a condition of setting up shop there, such as by requiring them to form joint ventures with local firms. The country has also been accused of helping Chinese firms buy U.S. ones to get their intellectual property, and even hacking foreign companies' computers and stealing their data.

Robert Holleyman, the top U.S. trade official for Asia during the Obama administration, said Americans will pay the price of Mr. Trump's attack on these problems.

"Clearly, that will be a cost on consumers and manufacturers in the U.S.," he said. "This has the potential to be a long-term and maybe a permanent tax."

Joerg Wuttke, former president of the European Union Chamber of Commerce in China, sees Washington's attempt to "slow down boosting Chinese technology gains" as a "game-changer."

It is "serious," he said. "The gun is loaded, and if not handled well, it might become a shock to the whole supply chain."

He faults the United States for paying insufficient attention to the leak of technology to China.

He added that the international business community has, in recent years, grown increasingly frustrated with Chinese policies.

"China has not been opening fast enough to U.S. and European businesses, hence they gave arguments to those that plead for reciprocity," he said.

China tried to get in front of the issue earlier this week, with Premier Li Keqiang announcing the government would discard requirements for technology transfer in Chinese manufacturing.

But his words were met with skepticism: In some sectors, such as electric cars, Beijing has made plans to mandate even more technology transfer than in the past as part of its goals for 2025. And it is even contemplating its own steps to limit the spread of its advanced technology elsewhere.

China is looking at "developing a range of review mechanisms for cross-border data flows as well as restrictions on the licensing of Chinese firms' IP to foreign entities, so this should be understood as a two-way process," said Lance Noble, senior thematic policy analyst at Gavekal Dragonomics.

In recent days, the Trump administration seemed to signal it was changing targets in its trade attacks, making peace with friendly countries as it turned its attention toward its chief international rival. Mr. Lighthizer said this week that NAFTA talks were making progress and that the European Union, Argentina, Brazil and South Korea would all receive exemptions from steel tariffs.

But on Thursday, Mr. Trump used the China announcement to assert that nearly all of his country's trading partners are cheating it. He described NAFTA as "a bad deal," the Korean agreement as "very one-sided," the World Trade Organization as "very unfair" and "a disaster," and said some "groups of countries" were "put together to take advantage of the United States."

When he meets with other world leaders, including Japanese Prime Minister Shinzo Abe, he said, they sometimes smirk over how badly they are treating his country.

"There will be a little smile on their face, and the smile is 'I can't believe we've been able to take advantage of the U.S. for so long,'" Mr. Trump said. "Those days are over."