

POLITICS

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Trump Says Mexico Tariffs Worked, Emboldening Trade Fight With China

By Ana Swanson and Jeanna Smialek

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WASHINGTON — President Trump has concluded his tariff threat worked and forced Mexico to stop the flow of migrants. On Monday, he pivoted back to his trade fight with China and vowed to hit Beijing with more tariffs if it did not accede to America's trade demands.

“The China deal’s going to work out,” Mr. Trump said in an interview on CNBC. “You know why? Because of tariffs. Because right now China is getting absolutely decimated by companies that are leaving China, going to other countries, including our own, because they don’t want to pay the tariffs.”

The president has long favored tariffs as an immediate and unilateral policy tool. But his increasing confidence that the levies have helped accomplish his goals without harming the United States sets up an even more tumultuous period ahead for businesses, consumers and foreign countries.

“Protectionism shows no signs of abating, rather it is intensifying,” said Joshua Shapiro, the chief United States economist at MFR Inc.

Markets are already counting on the Federal Reserve to come to the rescue by cutting interest rates. Fed officials have begun signaling they are prepared to help prop up the economy to counter any slowdown from Mr. Trump’s trade war, a development that could give the president even more leeway to carry out an aggressive trade policy.

Mr. Trump on Monday continued to attack the Fed for raising rates last year, saying it had put the United States at a competitive disadvantage to China, which has a fairly subservient central bank. “They devalue their currency. They have for years,” he said. “It’s put them at a tremendous competitive advantage, and we don’t have that advantage because we have a Fed that doesn’t lower interest rates.”

The president insisted his tariffs were having their intended effect — pressuring other countries to make deals, prompting companies to move factories back to the United States and generating an enormous amount of money, all without costing American consumers.

“A lot of countries have changed their habits because they know they’re next,” Mr. Trump said.

He said he was prepared to place 25 percent tariffs on another \$300 billion worth of Chinese goods and would do so immediately if a planned meeting with President Xi Jinping of China did not happen this month during the G-20 summit meeting in Japan.

“We are scheduled to talk and meet,” Mr. Trump said during remarks to reporters at the White House. “We always have the option to raise it another \$300 billion to 25 percent.”

Mr. Trump has blamed China for “reneging” on a trade deal with the United States, and last month, he raised tariffs on \$200 billion worth of goods as punishment. China has retaliated by raising tariffs on about \$60 billion worth of American products, like soybeans. Mr. Trump said on Monday that he saw no downside to taxing nearly everything China sends into the United States, saying it would continue to boost the American economy.

“We’ve never gotten 10 cents from China. Now we’re getting a lot of money from China, and I think that’s one of the reasons the G.D.P. was so high in the first quarter because of the tariffs that we’re taking in from China,” he said, referring to the gross domestic product, which grew about 3.1 percent in the first three months of the year.

Economists and business leaders have rejected Mr. Trump’s claims that the tariffs are doing no harm and say the trade war is slowing global growth and could ultimately trigger a recession.

The World Bank said late last month that global trade growth has slowed to its lowest level in a decade, while the International Monetary Fund warned that reciprocal tariffs between the United States and China could reduce global gross domestic product by 0.5 percent, or \$455 billion, next year. The Federal Reserve Bank of New York estimates that at their current levels, Mr. Trump’s tariffs would cost the typical American household \$831 over a year.

But the president and his top advisers continue to disagree that import taxes — both real and threatened — are pinching economic growth.

“I don’t think in any way that the slowdowns you’re seeing in parts of the world are a result of trade tensions at the moment,” Steven Mnuchin, the Treasury secretary, told reporters this weekend on the sidelines of the G-20 meeting in Japan.

That view is unlikely to change absent a steep drop in the stock market or a pronounced slowdown in the American economy, two metrics that Mr. Trump pays close attention to.

Most expect the Fed to act before that occurs. Markets now estimate an 80 percent chance of a rate cut at or before the Fed’s July meeting, and they see a 46 percent chance of three or more .25 percentage point cuts by the end of the year.

Those estimates fell, but not by much, after Mr. Trump announced on Friday that he had reached an immigration deal with Mexico and would suspend his tariffs, suggesting investors are accepting a rate cut as a done deal. Analysts say that the president's willingness to use levies as a negotiating tactic for nontrade matters is helping to perpetuate uncertainty.

On Monday, Mr. Trump defended the immigration agreement with Mexico as a victory, and said unequivocally that tariffs were the vehicle that delivered it.

"If we didn't have tariffs, we wouldn't have made a deal with Mexico," the president said. "We got everything we wanted."

It was not clear what the threat of tariffs on Mexico helped the president to secure. Major terms of the deal were agreed to months ago.

But last week, Mexico said it would deploy its national guard around the country, including to its southern border, and expand a program to allow asylum seekers to remain in Mexico while their legal cases proceed, both actions that had been discussed in prior months.

The United States and Mexico also reached an agreement in principle to review the number of migrants crossing into the United States in 45 days and again in 90 days. If the number has not dropped sufficiently, Mr. Trump said he could impose tariffs.

Some said Mr. Trump's threats toward Mexico, a close American ally, could send a message that trade wars are winnable and that the president will not back down against China.

"It's obvious that on a long-term perspective, President Trump is willing to effectively weaponize tariffs," said Wen Lu, a rates strategist at TD Securities. "I think he's almost using this as a political message to reinforce his stance against China."

The president's fondness for levies has already propelled the United States into the top echelons of tariff-wielding countries. The United States now has an overall tariff level that is more than twice as high as Canada, Britain, Italy and Germany, and even higher than emerging markets like Russia and Turkey, according to research by Torsten Slok, a chief economist at Deutsche Bank Securities.

Progress toward a trade agreement with China has stalled since early last month, and Mr. Mnuchin said over the weekend that no further talks were scheduled. The next significant meeting is expected to take place between Mr. Trump and Mr. Xi in late June.

In the meantime, the United States continues to prepare for the next round of Chinese tariffs. The United States trade representative will hold a hearing on June 17 to allow companies to testify about the effects of the next \$300 billion worth of levies on their businesses. That round of tariffs would hit a wide range of consumer goods, including sneakers, televisions and cribs.

Mr. Trump has also indicated he sees the fate of Huawei, the Chinese telecom giant that has been blacklisted from buying American technology, as a point of leverage in the trade talks.

The administration announced a ban on Huawei's access to American components on May 15, citing security concerns. The executive order blacklisting Huawei had actually been prepared for months, but officials held off issuing it while trade talks continued. When negotiations with the Chinese broke down at the beginning of May, a consensus emerged among top Trump administration officials to proceed with adding the company to an "entity list," according to people familiar with the matter, who declined to be named to discuss private deliberations.

On Monday, Mr. Trump said he viewed Huawei as a “threat” but “at the same time, it could be very well that we do something with respect to Huawei as part of our trade negotiations with China.”

Other countries are watching the threats warily. The Trump administration gave the European Union and Japan a six-month reprieve from tariffs on their auto exports in May, but negotiators have yet to make much progress on a trade agreement.

The administration has also been ramping up a trade fight with India, and laying the groundwork to impose tariffs on a variety of countries for manipulating their currencies.

Alan Rappeport contributed reporting.

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