

Say's reading materials for Group A

August 3, 2019

The Economist

More American tariffs on Chinese imports are coming

The trade war just got harder to end

Finance and Economics

Aug 2nd 2019

PRESIDENT DONALD TRUMP sounded remarkably positive about the latest round of US-China trade talks, which ended on July 31st. He called them “constructive” and said that the two countries’ shared future would be “a very bright one”. The previous day the White House had confirmed a Chinese commitment to buy more American agricultural products—one of the ways in which China had hoped to mollify Mr Trump, who resents China’s large bilateral trade surplus. But his soft words concealed a sting. From September 1st, he said, his administration would be applying tariffs of 10% on \$300bn worth of Chinese imports, on top of the 25% tariff already in place on \$250bn worth. That means tariffs will soon cover almost all trade in goods between China and America.

The announcement seemed to come as a shock to many. The S&P 500 index of leading American shares dipped. Interest rates on American government debt fell, generally a sign of investors seeking a safe haven in expectation of economic turbulence. But the Trump administration could argue that it had given plenty of warning. Mr Trump’s announcement simply made concrete an earlier, vaguer threat. Due process had been followed, including seven days of hearings in June on the proposed tariffs held by the United States Trade Representative (USTR).

During those hearings the USTR heard plenty of protest at the prospect of further tariffs. Steve Lang, the president of the American Bridal and Prom Industry Association, a lobby group representing makers of wedding gowns and tuxedos, reported that his firm was already paying millions of dollars in tariffs. (America has hefty levies on imported clothing quite apart from China-specific measures.) The proposed new tariff would cost him at least \$5m, he said. Since his bank had already said it would not lend him the money to pay, his company would have to declare bankruptcy. Such stories confirm that the new tariffs will hurt Americans, though it is not yet clear exactly how much, nor who will suffer most. Exporters might cut their prices to absorb some of the tariffs themselves—though academic studies of earlier tariffs, in 2018, found no evidence of that happening. The most recent round came into force only in mid-June, so there has been too little time for them to filter through to prices. Some companies may have stockpiled goods to avoid the duties (at the cost of extra storage space and loans). But there is good reason to think that the new round will hurt more than earlier ones. Most of the imports from China previously affected were components, meaning that their higher prices affected only part of an item's eventual cost. The next tranche will feature end-products, such as clothing and consumer electronics.

Mr Trump has placed the blame squarely on the Chinese, whom he accused of renegotiating a deal they had already struck; of failing to keep promises to buy more American agricultural products; and of allowing fentanyl, a deadly drug, to reach America. But his own actions have also made a deal harder to reach. The Chinese have made it clear that to be acceptable, any agreement will have to reverse all the tariffs already applied. And Mr Trump's latest move is humiliating to China's negotiating team, points out Bill Bishop, the author of *Sinocism*, a newsletter about China. Trust between the two sides was fraying before. Mr Trump has just shredded it further.

Both sides now seem to be digging in for a prolonged conflict. China's government is reportedly touring the provinces to examine the resilience of the economy. And in America the departments of defence and

commerce, as well as the USTR, are warning companies about the risks their China operations might pose to national security. The latest escalation will strengthen the view that China is not the best base from which to serve the American market. And it is becoming ever clearer that America will insist that any deal must involve the threat of tariffs to force China to stick to its side. Executives should understand that, with or without a deal, tariff risks will continue. Mr Trump could lift all his tariffs tomorrow, if he wished. But their effects will not be erased so easily.