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U.S., China Dig In for Long Trade Fight as Tariffs Take Effect

Both sides slap levies on $34 billion of each other's exports; some say fight could stretch into next year

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The U.S. and China slapped levies on $34 billion of each other's exports, the first tangible shots in a trade battle that both sides are bracing to fight for months—if not years.

The new levies took effect after midnight Eastern Time on Friday in the U.S. In response, a commission of China's State Council said it applied tariffs on 545 items "including agricultural products, vehicles and aquatic products," according to state-run Xinhua News Agency.

President Xi Jinping has instructed various levels of government to get ready for a full-bore trade war, according to Chinese officials. "With his tariff threats, Trump is posing an unprecedented challenge to the leadership," said Zhu Feng, a professor of international relations at Nanjing University, referring to President Donald Trump.

Brookings Institution China scholar David Dollar, who was the U.S. Treasury's top official in Beijing during the Obama administration, figures the fight will stretch into next year, at least, because a strong economy will make it less likely that the U.S. will feel any immediate economic pressure from the trade fight.

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Mr. Trump's threat to levy tariffs on another $200 billion also won't be ready to put into effect until the late fall because the U.S. has to clear a number of procedural requirements. And as the U.S. closes in on midterm congressional elections, the China fight might seem like "a political winner," Mr. Dollar said.

"It's an historic day," said former Trump White House chief strategist Steve Bannon, who still consults with administration officials. "China has been in a trade war with us for 20 years and now someone is standing up and fighting back."

U.S. markets seemed largely unmoved by the widely anticipated trade developments, though Chinese shares have been under more pressure of late. The Dow Jones Industrial Average gained 182 points, or 0.8%, to 24357 Thursday. The S&P 500 rose 0.9% and the Nasdaq Composite added 1.1%. Meanwhile, the Shanghai Composite Index fell 0.9% Thursday as fears mount about the impact of trade tensions on the country's economy.

The U.S. is already in its biggest trade battle since the Great Depression, with additional tariffs threatened and no end in sight to disputes with China and other nations.

A worker transfers rolls of aluminum at a factory in China's eastern Shandong province. Aluminum, along with washing machines, solar panels and other goods, is among the products caught up in the U.S.-China trade war. PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES

Since the beginning of 2018, the U.S. and its trading partners have put tariffs—or will shortly—on a total of $165 billion worth of imports, calculated Chad Bown, a trade expert at the Peterson Institute for International Economics. In addition to the new China tariffs, that includes U.S. tariffs on foreign washing machines, solar panels, steel and aluminum, and retaliatory tariffs by the nations targeted by the U.S.

"It's the biggest application of tariffs by the U.S. and affecting U.S. trade since Smoot-Hawley," said Dartmouth trade historian Douglas Irwin, referring to the 1930 duties that many economists have said worsened the Great Depression.

Other tariff fights were small change compared with Mr. Trump's. A 1971 import surcharge by then-President Richard Nixon lasted four months. Reagan-era tariff fights against Japan and the George H.W. Bush battles against European agriculture involved tariffs on several hundred million dollars of goods and tended to be settled fairly promptly, Mr. Irwin said.

Under Messrs. Reagan and Bush, for instance, Japan agreed to limit sales of cars and textiles to the U.S., and bought more U.S. semiconductors. Tokyo never retaliated against U.S. tariffs, as Beijing has.

There have been some olive branches offered by the U.S. and China to each other, though no signs of an imminent breakthrough.

Mr. Trump has gone to bat for China's telecommunications giant, ZTE Corp., which allegedly violated U.S. sanctions against Iran and North Korea. He helped overturn a Commerce Department decision to block U.S. companies from supplying ZTE with components —effectively a corporate death sentence—and has fought to prevent Congress from unraveling that deal. He also backed off from threats to impose harsh restrictions on Chinese investments in the U.S. and limits on U.S. tech exports to China.

On the Chinese side, the government has refrained from fanning nationalist sentiment and getting Chinese consumers to boycott U.S. products, as it has done with other nations, such as South Korea. Communist Party censors have told state-media outlets not to play up trade-war stories or the impact of the fight in battering local equity markets, Chinese journalists said.

"We're being forced to respond to U.S. tariffs, and we're doing so in a measured way," a Chinese official said.

China experts said that the two sides are likely to start negotiating again when the impact of tariffs start to bite—and markets begin to react. U.S. officials say that Mr. Trump closely follows the impact of his trade actions on U.S. markets, which was one reason he backed off plans for investment restrictions.

Mr. Trump's administration has been careful in the first round of tariffs on $34 billion of goods—and a second round of tariffs on an additional $16 billion, which will probably go into effect in August—to largely exempt U.S. consumer goods. Initial U.S. tariffs on Chinese goods target auto parts, electronic components, jet engine parts, compressors and other machinery.

That should reduce consumer reaction, Trump officials figure, although tariffs on machinery, motors and other components will drive up costs for businesses, which will likely be passed on to consumers.

At the same time, Chinese retaliatory tariffs are aimed directly at U.S. farmers—a big source of Trump support—as are tariffs from the European Union and Canada over metals trade. So far, Farm Belt support for Mr. Trump remains strong, but that could change over time as farm prices and sales slump. Overall, the Chinese tariffs focus on soybeans, airplanes and motor vehicles.

"The trade war ends when things collapse on Trump and the U.S. has to reposition" its strategy toward China, said Rufus Yerxa a trade negotiator in Republican and Democratic administrations who now heads the free-trade National Foreign Trade Council. "We don't know when that will be."

If that happens, from Beijing's perspective it is hard to tell what kind of trade package would appeal to an administration that is sharply divided over trade. One group, clustered around Treasury Secretary Steven Mnuchin, seeks a big increase in Chinese purchases, which would force Beijing to ease import restrictions on agricultural goods, U.S. movies and other items.

A second group, though, led by U.S. Trade Representative Robert Lighthizer, is skeptical of Chinese purchase promises. They want Beijing to scrap the industrial policy schemes it has used to build up its economy. Skeptical that China would actually make such changes, this group believes that tariffs should be kept in place for years to protect U.S. industry.

Chinese officials said they believe Mr. Trump hasn't fully appreciated the plan offered by Chinese envoy Liu He in February, which included tariff cuts, commercial deals, financial-sector liberalization and a plan for a bilateral free-trade deal. The U.S. side was so underwhelmed that Mr. Liu couldn't score a meeting with Mr. Trump.

Cornell University China scholar Eswar Prasad, who talks regularly to Chinese officials, said Beijing is looking to repackage these offers in a way that appeals more to Mr. Trump, who regularly demands China reduce its trade surplus with the U.S. by $200 billion. “There is a sense in Beijing that the way this plays out is by dressing up a package of measures to increase imports,” he said.

Corrections & Amplifications
The Peterson Institute for International Economics was incorrectly referred to as The Peterson Institute on trade in an earlier version of this article.

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