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POLITICS

'Get Moving': How Trump Ratcheted Up the Trade Battle With China

A tumultuous decision-making process inside the White House led to an abrupt turn toward tariffs

By Bob Davis and Peter Nicholas in Washington and Lingling Wei in Beijing

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President Donald Trump, fed up with hearing he was weak on China, assembled his senior trade team at the White House on May 22 and vented, according to officials who were involved. He wanted a tougher approach, including tariffs he could use as a weapon to force trade concessions.

Treasury Secretary Steven Mnuchin, who favored a milder approach, had spent months maneuvering to become the administration's point person on talks with China. Now, along with his administration rivals, he was getting a dressing down, the officials say.

"Get moving," the president told them.

Within 10 days, the U.S. put aside talk of an economic truce with China and said it was preparing to move forward with \$50 billion in tariffs on a range of imported products. It told the European Union, Mexico and Canada it would impose tariffs on steel and aluminum imports and threatened to do the same on imports of autos.

"The person in charge of trade is, unequivocally, President Trump," says National Economic Council Director Larry Kudlow. "Anyone who tells you different is just wrong."



National Economic Council Director Larry Kudlow with President Trump in the White House in May. PHOTO: ALEX EDELMAN/PRESS POOL

The abrupt turn to tariffs, after several weeks during which tensions were easing, was the public manifestation of a tumultuous decision-making process taking place inside the White House on trade, Mr. Trump's signature economic-policy issue of 2018.

Aides have cursed at one another in front of Mr. Trump as they struggle to reconcile clashing views on whether to impose tariffs to force concessions. Mr. Trump encourages the competing voices, and the status of senior officials rises and falls depending on the president's shifting goals.

Competition on the trade team for the president's ear is intense, with Mr. Mnuchin, U.S. Trade Representative Robert Lighthizer, White House trade aide Peter Navarro, Mr. Kudlow and others routinely jockeying for position. In early May, Mr. Navarro and Mr. Mnuchin feuded in Beijing and battled over the cable-news airwaves over whether to move ahead with tariffs, with Mr. Mnuchin calling off a trade war and Mr. Navarro restarting it.

The result has been conflicting signals from the U.S. on its goals and how far it will go to achieve them. That is creating uncertainty in China, Europe and elsewhere about how far to push the U.S. and to what end, increasing the risk of an escalating trade war.

The turn to a tougher U.S. stance has trading partners up in arms. Mr. Mnuchin was rebuked by rival finance ministers at a meeting in Canada last week, ahead of a summit of Group of Seven leaders that starts on Friday, where Mr. Trump could face similar blowback. In Beijing, China's leadership offered to buy as much as \$70 billion in U.S. agricultural, energy and other products, but only if the U.S. abandons its tariff threats.

"The unpredictability makes life more complicated for the Chinese," says Cornell University economist Eswar Prasad, who consults with Chinese officials. "They aren't sure which way the winds will shift. Anything the U.S. says can be pulled back."



Commerce Secretary Wilbur Ross, left, spoke with Treasury Secretary Steven Mnuchin, a frequent ally on trade, outside the White House in April. PHOTO: ALEX EDELMAN/PRESS POOL

This account of the dynamics within Mr. Trump's trade team and how they have affected policy is based on interviews with senior officials in the U.S. and China, including those in the White House and U.S. economic agencies.

For the White House and its allies, setbacks are short-term challenges as Mr. Trump remakes U.S. trade relations, especially with China.

"Trump has come up with tools that have shaken China to its core," says former White House chief strategist Stephen Bannon, including tariffs, investigations into Chinese trade practices and enforcement actions.

Before the May 22 meeting, Mr. Mnuchin was ascendant. He was pursuing a market-calming strategy of negotiating with China to increase purchases of U.S. goods and services and decrease import barriers, while putting aside, for the moment, the threat of sanctions.

Now his star has fallen and Mr. Lighthizer's has risen. Mr. Lighthizer, who favors a get-tough approach with China and other nations, is moving ahead with tariffs as a way to force China to make more fundamental changes to its economy. He wants China to reduce subsidies and other aid to Chinese firms competing internationally in advanced technology.

Unlike past Treasury secretaries, the 55-year-old Mr. Mnuchin didn't manage the China portfolio. Initially, Mr. Trump gave that assignment to Commerce Secretary Wilbur Ross. Mr. Ross lost favor after he negotiated deals with the Chinese in mid-2017 that Mr. Trump dismissed as naive.

Early on, Robert Porter, then a senior aide, tried to smooth decision-making. He set up weekly meetings with key players in the trade debate. He would meet privately with Mr. Trump and present him with varying viewpoints. Officials were asked to document and share with the group the data they used to reach their conclusions. They agreed to stop undercutting each other by slipping into the Oval Office to make their cases privately to Mr. Trump.

In February, Mr. Porter resigned, facing accusations that he had abused his two ex-wives, charges he denied.

In his absence, the process that had been set up was scrapped and officials say the White House fell into a free-for-all. Mr. Trump agreed to impose steel and aluminum tariffs—one of the reasons for the departure of Gary Cohn, a top economic adviser and a former leader of the antitariff faction inside the White House.

Mr. Mnuchin tried to assert himself in the spring. He lobbied to make a trade trip to Beijing, but was blocked by Mr. Lighthizer, who was also angling for the China portfolio.

On April 20, 2018, Mr. Trump approved Mr. Mnuchin's request, but only after adding Mr. Lighthizer and Mr. Navarro, whose book, "Death by China," had made him unwelcome in Beijing.

The Treasury secretary used the May 3 trip to Beijing to put his stamp on U.S.-China relations. During the first day of talks, the delegation met as a group. On the second day, Mr. Mnuchin and Chinese officials rearranged the schedule so that he would meet one-on-one with China's senior economic envoy Liu He, according to administration and Chinese officials.

Angry at what he saw as a power grab, Mr. Navarro confronted Mr. Mnuchin on the manicured lawns of the Diaoyutai State Guest House. He argued the team should meet as a whole and make clear the U.S. objections to Chinese practices, according to administration officials. Mr. Mnuchin felt progress could be made in one-on-one meetings. He later included others in breakout sessions.

The two sides felt they made enough progress that Mr. Liu came to Washington on May 15. This time, Mr. Mnuchin was in charge. A White House statement said Mr. Mnuchin "will lead the discussions"—and didn't include Mr. Navarro in the delegation.

That was the formulation the Chinese were seeking. In Beijing, Chinese officials built up Mr. Mnuchin, telling visiting foreign business leaders how constructive he had been in trying to ease the trade conflict.

In early May, Mr. Trump backed Mr. Mnuchin's plans to negotiate a deal involving more Chinese purchases of U.S. goods and removal of Chinese trade barriers, without resorting to tariffs and other sanctions. With a potential summit on North Korea on the

horizon, Mr. Trump sought help from China.

“He started changing his opinion on trade,” says one person familiar with the White House inner workings. “He didn’t mind people saying, ‘We can’t pick a trade war with China.’”



White House trade aide Peter Navarro feuded with Treasury Secretary Mnuchin in Beijing at cable-news airwaves for their views to win out. PHOTO: AL DRAGO/BLOOMBERG NEWS

Aides had seen a similar dynamic at work last summer when Mr. Trump was looking for China’s help with North Korea. He had asked them to remove the word “China” from remarks he was to give opening an inquiry into China’s alleged theft of intellectual property. They purged all but one mention of China from the speech.

When Mr. Liu arrived in Washington last month, Mr. Trump invited him to the White House for 15-minute visit, which stretched on for 45 minutes. Afterward, Mr. Kudlow said China had offered to boost annual purchases of U.S. products by “at least \$200 billion.”

Behind the scenes, the Chinese had refused to agree to any deficit target. Instead, the two sides said they were working on a “framework” for future purchases.

Beijing’s censors issued an instruction to state-owned media outlets, according to Chinese journalists: Play down China’s interest in advanced technology, which worries Washington, and run more stories about China’s interest in buying U.S. products.

The apparent calm masked mounting turmoil within the White House. By mid-May, U.S. national-security officials were convinced that China wasn’t helping on North Korea, and was actually trying to torpedo a June summit between Mr. Trump and North Korean dictator Kim Jong Un, U.S. officials say. National-security officials saw no need to coddle Beijing. They backed Mr. Lighthizer’s position that the U.S. needed to move aggressively to prevent Beijing from pressuring U.S. companies to transfer advanced technology—even if that meant imposing tariffs.

On May 18, the last day of Mr. Liu’s negotiations, a small group of trade officials trooped to the Oval Office, where Mr. Trump told Mr. Mnuchin that he wanted specific commitments, not vague promises.

Outside the White House, Mr. Bannon was tapping his allies in conservative media to support a stronger stand on trade, according to individuals familiar with Trump trade policy. He argued that Mr. Mnuchin was soft on China and was letting down the president.

Mr. Mnuchin went on Fox News on the Sunday, May 20, to say, “We are putting the trade war on hold.” But the tide was turning against him. Within hours of Mr.

Mnuchin's comments, the U.S. Trade Representative's office put out a statement saying the U.S. may use "all of its legal tools to protect our technology through tariffs" and other means—putting China on notice that there was no truce.

That Monday, one of Mr. Trump's favorite broadcasters, Lou Dobbs of Fox Business Network, attacked "the globalist wing" of the White House for allowing China to steal U.S. intellectual property and run up a huge trade deficit.

Mr. Mnuchin "is more than being nice" to China, he said on his cable-TV show. "He basically just said, I surrender, I'll give you what you want."

On Tuesday, May 22, the Washington Post editorialized that "Trump's trade war with China is over for now. China won."

The attacks ate at Mr. Trump, who hates being seen as soft on Beijing, say White House officials. Later on May 22, he called together his trade team and told them he wanted a tougher response. The meeting led to the creation of a small team, with a prominent role for the U.S. trade representative, to come up with a policy that once again put pressure on China by threatening sanctions.

Pressure to move ahead increased over the next few days when President Trump once again faced criticism, this time over his administration's efforts to ease penalties on Chinese telecommunications giant ZTE Corp., a move designed to induce China to make trade concessions. Rather than bar U.S. companies from selling components to ZTE for a dispute involving breaking U.S. sanctions on Iran and North Korea, which amounted to a corporate death sentence, Mr. Trump was considering less Draconian measures.

The president himself intervened in China's favor after a phone call from Chinese President Xi Jinping, according to U.S. and Chinese officials.

A letter organized by Senate Majority Whip John Cornyn and signed by 27 senators warned the administration "not to compromise lawful U.S. enforcement actions" on ZTE, which it called a "serial and premeditated" violator of U.S. law.

On Thursday, the U.S. cut a deal with ZTE that would allow the company to continue operations, but only by paying an additional \$1 billion fine and agreeing to have Chinese-speaking U.S. enforcement agents reside in the company to make sure it doesn't violate U.S. sanctions laws. U.S. officials hope that will ease pressure from Capitol Hill.



U.S. Trade Representative Robert Lighthizer, left, shown speaking with trade aide Peter Navarro, has been an advocate for tariffs on China. PHOTO: ANDREW HARRER/BLOOMBERG NEWS

Over the Memorial Day weekend, Mr. Lighthizer attended a dinner with Mr. Trump, while a drafting team readied a statement on tariffs and other sanctions, edited by the

president, say administration officials.

Shortly before markets opened that Tuesday, the White House announced it would impose 25% tariffs on \$50 billion of Chinese goods that contained “industrially significant technology,” shortly after June 15.

Later that morning, Mr. Navarro and Trade Representative General Counsel Stephen Vaughn briefed Trump supporters on the decision, say people familiar with the call. The pair said the media had gotten the story wrong on the Trump administration. President Trump was taking the toughest line in 40 years on China.

Other events were driving the Trump administration toward a tougher stance on trade, including a June 1 deadline for a decision on whether to impose steel tariffs on Canada, Mexico and Europe.

On May 30, Mr. Navarro went on Fox News to say that Mr. Mnuchin’s statement that the trade war was “on hold” should be dismissed as an “unfortunate sound bite.”

Steel tariffs were announced the next day. Now, the administration is examining whether to impose tariffs on foreign cars.

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