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POLITICS

U.S. to Apply Tariffs on Chinese Imports, Restrict Tech Deals

'It's out of control,' President Donald Trump says of U.S. trade deficit with China



Donald Trump on Thursday signed a memo instructing the government to respond to what the U.S. considers unfair trading and investment practices by China. PHOTO: JONATHAN ERNST/REUTERS

By Bob Davis

Updated March 22, 2018 11:55 p.m. ET

WASHINGTON—President Donald Trump sought to rewrite the rules of global trade on Thursday with a long-pledged trade offensive against China.

The administration's actions, including a threat of tariffs on \$60 billion of imports and tighter restrictions on acquisitions and technology transfers, came in response to what it said were Chinese efforts to obtain U.S. technology through intimidation, state-financed acquisition and subterfuge.

The move followed previously announced tariffs on global imports of steel and aluminum, which will take effect on Friday, although the administration is negotiating exemptions on those duties for many of its closest allies.

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At a White House ceremony, the president signed a memorandum, citing Section 301 of the Trade Act of 1974, instructing the government to respond to Chinese practices. Specific actions won't occur for at least one month, which the administration hopes will push China to make concessions as it contemplates a substantial cutoff in trade.

In a warning shot, China on Friday unveiled plans for tariffs against \$3 billion in U.S. imports, from fruit to pork and recycled aluminum and steel pipes. The country's Commerce Ministry said the penalties are being imposed in response to U.S. tariffs on Chinese steel and aluminum products, which it said violate global trade rules.

The ministry warned of additional action against the U.S.'s latest proposed penalties on Chinese goods.

The Trump administration also released a report accusing Beijing of undermining U.S. companies operating in China through unfair licensing deals and other improper practices.

"It's out of control," said Mr. Trump, adding that past efforts to negotiate with China had failed and that the World Trade Organization was a "disaster" and "very unfair" to the U.S. Mr. Trump sees confrontation as the way to get results, feeling that past administrations haven't been tough enough, senior White House officials said.

The White House is putting together a package of 25% tariffs on Chinese imports, and Mr. Trump's advisers said they had targeted 1,300 product categories. The president said that action could affect imports of "about \$60 billion," but his advisers, speaking earlier, said that it was more likely to be \$50 billion, or roughly 10% of the more than \$500 billion the U.S. imported from China last year.

The administration says it will publish a formal list of proposed tariffs in 15 days. U.S. industry would get 30 days to comment on which products should be selected for tariffs, said the office of the U.S. Trade Representative. The goal, according to USTR officials, is to keep the pressure on China to make changes in its practices, while giving U.S. industry a chance to make its case about which tariffs would be especially harmful to U.S. industry.

Mr. Trump has said he wants Beijing to come up with a plan to slash the U.S. \$375 billion merchandise trade deficit with China by \$100 billion.

Many trade economists say changing trade policies won't have much of an impact. Rather, trade deficits are controlled by macroeconomic measures, such as changing national spending and saving patterns. The U.S. stock market reacted negatively Thursday, with the Dow Jones Industrial Average falling 724.42 points, or 2.9%, to close at 23957.89.

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some Democrats who rarely line up with the president. “I don’t agree with President Trump on a whole lot, but today I want to give him a big pat on the back,” said Senate Minority Leader Chuck Schumer (D., N.Y.). “He is doing the right thing when it comes to China.”

The aim of the administration’s steel and aluminum tariffs was to get allies to pressure China to reduce its excess capacity—and exports—in those commodities. Those tariffs, though, have split the U.S. and its allies and made Washington the target of criticism, rather than Beijing.

So, as the Trump administration raises tensions with China, it is now softening its trade stance with other trading partners. It is negotiating exemptions to the metal tariffs for such allies as the European Union, Australia and South Korea. Canada and Mexico are also getting exemptions while the two neighbors renegotiate the North American Free Trade Agreement with Washington.

The Trump administration is “now trying to form a common front in the dispute against China,” said Eswar Prasad, a China expert at Cornell University. So doing, “the administration seems to be attempting a midair pivot in its relationship with other U.S. trading partners.”

Chinese officials complain that the U.S. has suspended formal trade talks and hasn’t given them a clear idea of what the U.S. wants Beijing to do. “We don’t want a trade war,” said Chinese Ambassador to the U.S. Cui Tiankai. “But we are not afraid of it. If somebody tries to impose a trade war on us, we will certainly fight back and retaliate.”

Beijing contends that it has improved its protection of intellectual property and that it is moving fast to further liberalize its economy. It also is putting together an additional package of retaliatory measures against the latest U.S. tariffs that include its own tariffs on soy, sorghum and live hogs—some of which are exported from states that were big supporters of Mr. Trump in the 2016 presidential election. Chinese officials have also said that if the U.S. wants to narrow the trade deficit, it should ease restrictions on exports of U.S. high-technology goods to China—precisely the opposite of what the U.S. is planning to do.

Mr. Trump, while promising to further stem the flow of technology to China, criticized what he said was a “tremendous intellectual property theft situation” by China, which he valued at

The scope and substance of the Chinese imports that will be targeted by the tariffs has been a moving target. Earlier in the week, White House officials were signaling \$30 billion, though others said \$60 billion. A White House official said that the harm to the U.S. from forced technology transfer, once estimated at \$30 billion, had been updated to \$48 billion. They said that was why the U.S. was targeting around \$50 billion in Chinese goods.

It's "\$50 billion and may be as high as \$60 billion once [the U.S. Trade Representative] completes the process," a White House official said.

At the White House ceremony, Lockheed Martin Corp. CEO Marilyn Hewson praised the U.S. initiative. "This is a very important moment for our country in that we are addressing what is a critical area for the aerospace and defense industry and that is protecting our intellectual property," said Ms. Hewson, whose firm is a top U.S. military contractor.

U.S. Trade Representative Robert Lighthizer said Thursday in Senate hearings that the tariffs would probably target high-technology industries that China has singled out for development. Those could include new-energy vehicles technology and agricultural machinery. Later, USTR also said that aerospace, information and communications technology, and machinery could be subject to tariffs.

Yet the target list raises several difficult questions, critics said. For one, many in the U.S. technology industry worry they will face higher costs through tariffs, and even face retaliation against their companies doing business in China.

Tariffs on communications products, "would make it more expensive to expand and upgrade American communication networks," said Cinnamon Rogers, a senior vice president of the Telecommunications Industry Association, which represents makers of technology used in communications networks.

The tariffs also would be levied without first bringing a case to the WTO, which adjudicates trade claims. Trade lawyers are split on whether the U.S. has the authority to do so. But even if it is permitted under WTO rules, it would upend the practice of bringing disputes first to the Geneva trade body.

The U.S. also is planning to bring a case to the WTO arguing that China is favoring domestic companies when it comes to licensing. The WTO adjudicates trade cases and can authorize countries to assess tariffs when a country doesn't comply with international trade rules.

China has been a big target for cases brought by the U.S., Japan and the European Union, and the U.S. hopes to sign up allies for its planned WTO action.

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with a specific plan to restrict Chinese investment. The U.S. already has made it tough for Chinese firms to invest in the U.S., blocking the purchase of a number of U.S. semiconductor firms. The Committee on Foreign Investment in the U.S., an interagency group, screens proposed bids for national-security concerns.

While Congress is debating whether to broaden the jurisdiction of CFIUS to include the acquisition of U.S. technology through joint ventures in the U.S. and abroad, the Trump administration wants to go further. CFIUS currently wields its veto power on foreign acquisitions based on national security concerns, but the administration wants to consider economic harm, too.

—*William Mauldin and Rebecca Ballhaus contributed to this article.*

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Corrections & Amplifications

Mr. Trump gave the U.S. Treasury 60 days to come up with a specific plan to restrict Chinese investment. An earlier version of this article incorrectly said he gave the Treasury 60 days to come up with a specific plan for tariffs on Chinese imports. (March 22, 2018)

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