



## Business

### With tariffs, Trump starts unraveling a quarter-century of U.S.-China economic ties

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by [David J. Lynch](#) and [Emily Rauhala](#) June 15 [✉ Email the author](#)

President Trump imposed tariffs Friday on \$50 billion in Chinese products, signaling his willingness to unwind nearly a quarter-century of growing commercial links between the world's two largest economies unless Beijing agrees to transform the way it conducts business.

The decision marked the president's boldest step so far to implement his "America First" strategy, which he promises will shrink the \$811 billion merchandise trade deficit and return [lost manufacturing jobs](#) to the United States.

But Trump's aggressive approach is rattling American corporate leaders and his Republican allies in Congress, as Chinese officials show no sign of capitulating.

It took little more than an hour for the Ministry of Commerce in Beijing to fire back at the president with a late-night statement pledging to erect trade barriers of the "same scale and the same strength." China is targeting agricultural goods, cars and energy in a bid to hit the president's supporters in farm states and the industrial Midwest.

Though [the president](#) had telegraphed his tariff plans in March, the formal White House announcement amounted to a sharp break with a generation of economic integration backed by Republicans and Democrats.

Since the mid-1990s, when China's entry into the world trading system was first broached, multinational corporations have grown highly dependent upon Chinese factories. Over the past decade, two-way trade between U.S. and Chinese ports has grown by two-thirds to nearly \$700 billion annually.

**"Given China's unwillingness to capitulate to U.S. demands, it is difficult to see a path to a negotiated settlement that avoids a big hit to trade and investment flows between the two countries," said Eswar Prasad, former head of the International Monetary Fund's China division. "Trump's trade sanctions constitute a significant strike against rising global integration."**

There are other signs the two economies may not be as tightly bound in the future as they have been in the past.

The administration is expected June 30 to make public new restrictions on Chinese investment in [U.S. technology industries](#).

Chinese officials, meanwhile, have mounted a lavishly funded research and development program aimed at reducing their dependence on U.S. companies for key components such as semiconductors.

Administration officials say the tariffs are needed to compel China to modify elements of its state-led economic system that disadvantage private companies. Efforts over several years to persuade Beijing to reduce the government's role in key industries and drop special requirements placed on foreign companies have failed, they said.

"We had two systems, which were supposed to converge after China joined the [World Trade Organization] in 2001 into two market economies. What we got was a much larger Chinese nonmarket economy that has become structurally different in ways that [threaten U.S. economic prosperity and national security](#)," said a senior administration official, who spoke on the condition of anonymity to discuss the president's thinking.

Trump appears to be gambling that the imposition of tariffs — even if it triggers a retaliatory spiral — will force China to surrender. Administration officials are confident that China needs the \$20 trillion U.S. market more than American businesses need China — and that China has more to lose from a trade war, given that it enjoys a trade surplus.

Many China experts doubt the U.S. strategy will succeed. Unlike Trump, Chinese President Xi Jinping does not have to worry about unhappy constituents complaining about the costs of a trade war. American businesses that experience supply disruptions and farmers who lose export sales as China retaliates will let their congressional representatives hear about it. Trade measures designed to punish China also will hurt other countries, including U.S. allies, as well as American companies. Roughly 60 percent of the \$505 billion in goods the United States imports from China originates in the Chinese affiliates of multinational corporations, according to economist Nicholas R. Lardy of the Peterson Institute for International Economics. "I can't imagine that the Chinese are going to back down," Lardy said. "China is likely to prevail, and Trump will have to find some way to back down."

### **Trade war's 'front line'**

U.S. and Chinese officials in recent weeks had made progress on [a deal](#) that involved up to \$70 billion in additional purchases of American products. But the Chinese offer is now "invalid," the statement from Beijing said.

Many lawmakers, including some such as [Sen. Marco Rubio](#) (R-Fla.) who have been critical of the president, issued public statements backing the tariffs.

“The president’s actions on China are on the money,” said Senate Minority Leader Charles E. Schumer (D-N.Y.). “China is our real trade enemy, and their theft of intellectual property and their refusal to let our companies compete fairly threatens millions of future American jobs.”

But many lawmakers, while welcoming action against China, are worried about potential escalation. “We support the president standing up to China,” said Rep. James Comer (R-Ky.), who represents a conservative rural district. “But . . . we’re concerned because agriculture is on the front line of this trade war.”

Friday’s action follows an administration report in March that complained China had forced foreign companies to surrender their technology secrets in return for market access and had pilfered other advanced U.S. technologies through a campaign of cybertheft and investment in Silicon Valley start-ups.

“These practices . . . harm our economic and national security and deepen our already massive trade imbalance with China,” Trump said in his announcement of the tariffs.

The United States last year ran up a \$375 billion deficit in goods trade with China, a figure the president blames on Chinese trade barriers. Most economists say the gap is the result of broader forces such as Americans’ low savings rate.

On April 6, the administration published a proposed list of 1,333 products targeted for tariffs. After hearing objections from business groups, U.S. Trade Representative Robert E. Lighthizer dropped 515 items and added 284 new ones.

As a result, the tariffs will be imposed in two steps. On July 6, customs officers will begin collecting the tax on [an initial basket of goods](#) valued at \$34 billion, which were on the initial list.

The Office of the U.S. Trade Representative (USTR), meanwhile, will field comments on [the new items](#) on the list, valued at \$16 billion.

“These tariffs are essential to preventing further unfair transfers of American technology and intellectual property to China, which will protect American jobs,” the president said.

Industry groups are lining up to lobby for relief.

Semiconductors were among the new additions to the USTR list, sparking vocal objections from the Semiconductor Industry Association.

Most of the semiconductors imported from China are returning to the U.S. companies that design and produce them after undergoing limited and low-value work done in China, the group said.

“The Chinese are going to be sitting back and laughing that the Americans are putting tariffs on themselves,” said an industry executive, who spoke on the condition of anonymity because he was not authorized to speak to the news media.

The USTR also plans to establish a process for U.S. companies to request permission to continue importing the targeted items on a duty-free basis if no alternative suppliers exist.

The Chinese government is pursuing a \$300 billion program of subsidies to enable its companies to dominate next-generation technologies such as artificial intelligence, robotics and quantum computing, upping the stakes for Trump’s efforts to preserve U.S. technological secrets.

### **'Finger on the trigger'**

China has a history of targeting industries such as steel or solar energy for growth, which results in excessive investment by its state-led firms. That in turn swamps global markets, driving prices to unsustainable levels and making it all but impossible for private companies to compete, a senior administration official said.

*[This rural Wisconsin county is famous in China for its ginseng. A trade war could take it away.]*

“This is not market capitalism,” the official said, speaking on the condition of anonymity to brief reporters. “These are state policies where they are targeting certain industries.”

Trump’s complaints about China’s trade practices are shared by many business leaders. But there is little support for using import taxes, which are paid by Americans, as a tool against the Chinese.

“Imposing tariffs places the cost of China’s unfair trade practices squarely on the shoulders of American consumers, manufacturers, farmers and ranchers. This is not the right approach,” said Thomas J. Donohue, president and chief executive of the U.S. Chamber of Commerce.

The U.S. announcement comes at a complex juncture in U.S.-China relations.

Following this week's summit in Singapore between Trump and North Korean leader Kim Jong Un, Secretary of State Mike Pompeo stopped in Beijing for meetings with Xi and other top Chinese leaders.

On Thursday, Pompeo thanked Xi for China's help with North Korea and even wished the Chinese president a happy birthday. But at a news conference with China's foreign minister, Wang Yi, tension over trade was clear. Pompeo said the U.S. trade deficit with China is still too high, and Wang called for Washington to make a "wise choice" on tariffs.

After Trump's statement Friday, Lu Xiang, a trade expert at the Chinese Academy of Social Sciences in Beijing, warned that relations between the two countries were heading to their lowest point since China began its economic reforms in the late 1970s.

"This is like holding up a pistol, putting the finger on the trigger," he said of Trump's actions. "It's just one step away from pulling the trigger and firing the pistol. It's a very dangerous and sensitive moment now."

*Rauhala reported from Beijing. Erica Werner in Washington and Luna Lin in Beijing contributed to this report.*

 **2785 Comments**

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