



China-US Trade Disputes (XX)

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Trump threatens to hike tariffs on US\$200 billion of Chinese goods to 25%

Additional tariffs on another US\$325 billion of Chinese goods in the works too

On Sunday night, US President Donald Trump threatened to raise the US tariffs on US\$200 billion of Chinese goods to 25% on this Friday (10 May), and to impose 25% additional tariffs on another US\$325 billion of Chinese imports 'shortly'. We believe that the latest tariff threats are aimed at putting pressure on China to reach a trade deal by this week. We will continue to closely monitor developments in this regard.

[Trump announces plans to hike tariffs on Chinese imports](#)

In a fresh series of tweets on Sunday (5 May) night, US President Donald Trump announced that he would raise the US tariff rate on US\$200 billion worth of Chinese goods from the existing 10% to 25% on this Friday (10 May), and that he plans to impose 25% additional tariffs on another US\$325 billion of Chinese imports 'shortly', which, together with the tariffs in-place, would subject all Chinese imports to extra tariffs.¹ Trump said that trade talks with China are continuing, but are moving too slowly as China 'attempts to renegotiate'.

¹ US imports from China amounted to US\$539.5 billion in 2018, less than the total value (US\$575) of Chinese imports targeted by existing and proposed tariffs announced by Trump.

Chinese Vice Premier Liu He was scheduled to arrive in Washington on Wednesday (8 May) for what was believed to be the final round of trade negotiations. However, the *Wall Street Journal* reported on Sunday night that China was considering cancelling this week's trade talks in the light of Trump's comments.

Reported progress and hurdles in trade talks

Before Trump's announcement, there were signals that China and the US were moving closer to a comprehensive trade deal to end a months-long trade war. On 4 April, Trump said that the two countries were very close to a deal, and that a trade deal might be reached 'within the next four weeks'. US Treasury Secretary Steven Mnuchin said on 10 April that the US and China have largely agreed on a mechanism to monitor the implementation of any trade agreement reached, including establishing new 'enforcement offices'. As recently as last Friday (3 May), Trump described the bilateral trade talks as 'going very well' and said the two countries were 'getting close to a very historic, monumental deal'.

But the abrupt reversal in the US stance also reflects that difficult hurdles remain in the bilateral trade talks. It was reported that China had asked the US to lift all punitive tariffs on Chinese products but the US would like to keep some of the tariffs as leverage, and consequently China retreated from some of its earlier commitments made.

Our take

The latest Trump's comments seem to mark a sudden escalation in trade tensions between China and the US, and a shift in tone from Trump, who frequently cited progress in trade talks in recent weeks. However, we believe that the latest tariff threats are mostly aimed at exerting pressure on China to reach a trade deal by this week, and not a carved-in-stone policy announcement. It was reported last week that the US had been targeting 10 May to announce a trade deal, which would then be finalized and signed by Trump and Chinese President Xi Jinping later at an official summit.

Nonetheless, the reversal in Trump's stance also signals difficulties in ironing out the differences between the two countries before a trade deal could be reached. In our view, even if China and the US can reach a trade agreement to end the trade war in the near term, broader uncertainties and tensions (such as the escalating technology war) between the two countries are likely to remain for a long time, as the key issue between China and the US is power politics instead of economics.

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