

Snap | 6 May 2019

Trump again threatens China with higher tariffs

President Trump has returned to threatening China with higher US import tariffs. This is part of his risky but potentially rewarding negotiation strategy. We still expect a US- China trade deal



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President Trump added yesterday another chapter in his endless game of blowing hot and cold. In two tweets he accused China of trying to renegotiate. He threatened to hike tariffs to 25% on the \$US 200 bn package of imports from China that were subject to a hike of 10% last September. Among other things China and the US still have to agree on an enforcement mechanism. The US wants to be able to punish China with renewal of tariffs if China does not live up to their side of the deal. China does, according to press statements, not accept a one sided mechanism in which it is not allowed to retaliate tariff hike by the US.

In our view Trumps tweets are a negotiation strategy. In a recent speech to US Governors, Trump confirmed our longstanding interpretation of his strategy, saying that he can only secure new trade deals by imposing/threatening tariffs. Although Trumps strategy is risky, because the Chinese could refuse to negotiate at gunpoint and decide to walk out on the trade talks, both sides

have invested too much political capital in the negotiations to let this happen. Trump plays hard ball, but the renegotiation of NAFTA has shown that he is prepared to water down some of his toughest demands.

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