The New York Times

Trump's Trade War Spooks Markets as White House Waits for China to Blink

By Ana Swanson

June 19, 2018

WASHINGTON — President Trump's threat to impose tariffs on almost every Chinese product that comes into the United States intensified the possibility of a damaging trade war, sending stock markets tumbling on Tuesday and drawing a rebuke from retailers, tech companies and manufacturers.

The Trump administration remained unmoved by those concerns, with a top trade adviser, Peter Navarro, insisting that China has more to lose from a trade fight than the United States. He also declared that Mr. Trump would not allow Beijing to simply buy its way out of an economic dispute by promising to import more American goods.

"President Trump has given China every chance to change its aggressive behavior," Mr. Navarro said in a call with reporters on Tuesday. "China does have much more to lose than we do."

In threatening tariffs on as much as $450 billion worth of Chinese goods, the administration is betting that Beijing will blink first. It's a risky gamble by a White House that appears ready to forgo diplomatic negotiations in favor of punishing tariffs that could pinch consumers and companies on both sides of the Pacific.

The approach fulfills a frequent campaign promise by Mr. Trump. But it has spooked companies, investors and markets, which are increasingly worried that the United States has no other strategy to resolve a stalemate with China over its trade practices. Several rounds of trade talks with top Chinese officials in Washington and Beijing produced little agreement, and no additional official negotiations are scheduled, administration officials said.

On Tuesday, Mr. Trump suggested he was ready for a fight, saying China would no longer take advantage of the United States.

"China has been taking out $500 billion a year out of our country and rebuilding China," the president said during a speech in Washington before the National Federation of Independent Business. "They've taken so much. It's time folks, it's time. So we're going to get smart, and we're going to do it right."

Markets sank on Tuesday in response to Mr. Trump's announcement late Monday that his administration was preparing to impose even more tariffs than he originally threatened if China continued with its plan to retaliate against the United States.

Mr. Trump is now threatening to tax nearly the total value of goods that China sent to the United States last year, which was $505.6 billion.

The benchmark Dow Jones index, the Standard & Poor's 500-stock index and the tech-heavy Nasdaq composite all fell on Tuesday, following stock markets in Frankfurt, London, Paris, Hong Kong, Tokyo and mainland China. Investors moved money into assets that are considered safe havens, like 10-year United States Treasury bonds and the Japanese yen.

Shares of Boeing and Caterpillar, which are among America's leading exporters to China, fell sharply on Tuesday, along with soybean futures. China is the world's largest importer of soybeans, a key livestock feed, and Beijing has targeted American soybeans for retaliation with its own tariffs.

Soybean prices dropped more than 7 percent at times during the morning before stabilizing in afternoon trading. Prices are at their lowest level in more than two years, creating a politically delicate issue for Mr. Trump, who has strong support from rural voters in farm states but whose trade policies have angered farmers and lawmakers who represent them.

Senator Joni Ernst, an Iowa Republican, said in a statement, "These aggressive trade actions will continue to have damaging consequences, including an impact on our commodity prices and farm futures, and increasing anxiety among the agricultural and business communities in Iowa."

But Mr. Navarro, who is among Mr. Trump's most strident anti-China advisers, dismissed those concerns, saying the United States had no choice. He said that the White House had given China numerous opportunities to negotiate and alter policies that have cost Americans millions of jobs, and that the Trump administration was now prepared to impose tariffs on $450 billion of Chinese goods in order to force Beijing to bend.

"I think that the other side may have underestimated the strong resolve of President Donald J. Trump," Mr. Navarro said. "If they thought that they could buy us off cheap with a few extra products and allow them to continue to steal our intellectual property and crown jewels, that was a miscalculation. We hope going forward there are no more miscalculations."

Mr. Navarro said a trade clash would hurt China much more than the United States, given that the value of China's exports to the United States was nearly four times the value of what the United States exports to China.

For weeks, the United States and China had appeared close to a deal that would have forestalled tariffs. Top advisers like Steven Mnuchin, the Treasury secretary, and Wilbur Ross, the commerce secretary, had advocated a deal that could avoid the devastating effects of a trade war, and spent hours in negotiations with Chinese officials.

But after the Chinese refused to commit to a target for reducing their trade surplus with the United States or limit industrial subsidies, Mr. Trump rejected those proposals. And his resolve only hardened after lawmakers, including Democrats, criticized him as being weak on China when he agreed to help ease penalties on ZTE, a Chinese telecommunications company accused of violating American sanctions.

That decision has triggered a huge fight between the White House and Congress. On Monday, the Senate passed legislation that would reinstate penalties on ZTE and rescind a Commerce Department deal that allowed the company to stay in business in exchange for paying a large fine and agreeing to a series of management and compliance changes. The White House has vowed to remove that provision before the bill becomes final, and Mr. Trump is expected to meet with lawmakers on Wednesday to discuss the fate of ZTE.

The president's approach has irritated some of Mr. Trump's own advisers, including Mr. Mnuchin, who has been frustrated by the process of the China talks, according to an official familiar with his thinking. Mr. Mnuchin has tried to explain in recent meetings how China is likely to respond to America's threats and the impact that retaliation could have on financial markets and the economy.

He has also been trying to persuade Mr. Trump not to proceed with harsh restrictions on Chinese investment that would limit China's ability to do business in the United States. The Treasury Department is expected to release a proposal this month. Mr. Mnuchin, who is leading the effort, has been trying to convince Mr. Trump that the restrictions are unnecessary, given pending legislation that would expand national security reviews performed by the Committee on Foreign Investment in the United States.

In late May, Mr. Mnuchin helped orchestrate a meeting between the president, top White House advisers and Republican lawmakers, where the Treasury secretary asked lawmakers to help make the case that legislation would be a more targeted way to police Chinese investment, three people with knowledge of the meeting said. But Mr. Navarro and Robert E. Lighthizer, the United States trade representative, who were also in the meeting, objected to that approach. The president ultimately overruled Mr. Mnuchin, saying that he supported the congressional legislation but that it alone wasn't enough.

The decision to proceed with tariffs is a victory for hard-liners in the administration, like Mr. Navarro and Mr. Lighthizer. They had argued that the United States should not back down from trying to force China to make more fundamental changes to its economy, even if such measures would cause short-term pain for American businesses and consumers.

On Tuesday, Mr. Navarro minimized the divisions between administration officials, saying the United States' negotiating process had not wavered and was "linear." He said the idea of dropping the trade case in exchange for purchases — something the Chinese had offered the Americans in negotiations — had always been a "nonstarter."

In his remarks Tuesday morning, Mr. Navarro took aim at China's internal plan to develop cutting-edge industries like robotics, new-energy vehicles, advanced rail and shipping, and aerospace. He said the country could not be allowed to dominate technologies that would be an important source of jobs and growth for the United States in decades to come.

China has engaged in unfair practices, including cybertheft and "information harvesting," to obtain technological secrets from the United States that would allow China to pull ahead in these industries, Mr. Navarro said.

"It is important to note here that the actions President Trump has taken are purely defensive in nature," he said.

There is broad agreement that China has engaged in unfair trade practices that have hurt American companies. But Mr. Trump's resort to tariffs as his primary negotiating tool has prompted swift condemnation from retail, technology and manufacturing companies, who said the approach could hurt American consumers and companies more than the White House realized.

Jose Castaneda, spokesman for the Information Technology Industry Council, called the escalation of trade tensions with China "irresponsible and counterproductive."

"We appreciate President Trump's efforts to protect the United States' 'crown jewels,' but tariffs are simply the wrong way to do it," he said. "The White House needs to work with our allies to create lasting change with China. Too many jobs and livelihoods are at stake to get this wrong."

Matt Priest, the president of the Footwear Distributors and Retailers of America, said it was difficult to see how tariffs on an additional $200 billion of Chinese goods wouldn't "negatively impact all Americans of every walk of life."

"The president claimed that trade wars are easy to win, but what our industry has always known is coming true: Trade wars are costly, unnecessary and do harm to the American economy," he said.

Follow Ana Swanson on Twitter: AnaSwanson.

Alan Rappeport contributed reporting from Washington, Prashant S. Rao from London, and Matt Phillips from New York.

A version of this article appears in print on June 20, 2018, on Page A1 of the New York edition with the headline: Global Markets Slump on Fears Of a Trade War