



## Renewed Tariff Threat a Major Risk to This Week's Trade Talks

The progress towards a US-China deal has been up-ended with renewed tariff threats by President Trump (25% tariff on \$200 billion in Chinese goods by Friday + 25% on \$325 billion more), apparent balks by the Chinese (especially on tech transfers), and the threat of the Chinese delegation canceling this week's round of negotiations. We have previously seen President Trump threaten a new tariff package in the lead up to last year's G20 meeting last year, only to use it as negotiating leverage, leading to speculation that this is President Trump seeking to use the new tariff threats to get a deal across the finish line. Based upon our conversations with our trade contacts, there is appears to be a universal belief that this is not negotiating leverage, but what was almost a done deal last week, has derailed in recent days. There is some hope that negotiations could be salvaged, but this situation highlights how tenuous any US-China deal remains.

**New Tariffs.** President Trump's threat to increase the previously delayed tariff rate on \$200 billion Chinese goods from 10% to 25% this Friday (May 10), along with a 25% tariff on a new tranche of \$325 billion presents a complication to successful resolution of trade talks during this week's planned negotiating round. A hitch over portions of an agreement related to tech transfer commitments seems to have spurred the escalatory measures in a last-minute effort to secure more meaningful concessions. We have viewed renewed tariff threats as inherent to the current negotiating dynamics given a lack of deadline established following the March 1 extension. Following the May 1 extension the U.S. Trade Representative (USTR) preserved the ability of President Trump to impose tariffs at any date of his choosing.

**Miscalculation may have derailed progress.** Last week, a deal was seemingly within reach after a framework on the tariff removal process was reportedly struck. However, the Trump administration's intention to conclude a deal may have been misread as U.S. officials were said to have been frustrated with Chinese negotiators walking back some commitments on tech transfer protections. That development, combined with the release (intended or not) of the tariff removal plan may have made the administration feel that it was opening itself to political attacks for not being tough enough in securing a good deal. In reaching out to multiple contacts, we have been surprised that the feedback regarding the latest tariff threat has been more negative than we anticipated and is leaning towards not seeing this as being purely a negotiating tactic. There are questions as to what led to the latest breakdown, and whether developments related to Venezuela, the Iran oil sanctions decision, North Korea's weekend missile test, or lessening worry about the economic conditions in both the U.S. and China influenced the direction. Geopolitical volatility has spiked in the last several weeks - potentially signaling a more difficult path ahead for negotiations.

**Trump negotiating style or new chapter in trade fight?** It is not uncommon for trade talks to see renewed brinksmanship in the final stages to secure firmer or additional commitments on contentious issues. President Trump has an established pattern of threatening negotiating partners with the worst case scenario before easing into a deal and claiming a victory, especially when emboldened by strong economic news and strength in the market. However, the strategy at this stage in the process presents more sensitive risks. China's nationalist factions will not be eager to accept a deal under threat from the Trump administration, and President Xi will be wary of being seen as offering further concessions to a foreign power under pressure. President Xi has previously called off planned trade talks in Washington led by China's Vice Premier Liu He after President Trump decided to go ahead with the 10% tariff on \$200 billion Chinese goods. We will be watching to see whether the renewed tariff threats in the late stages of talks encourages Chinese officials to call off the negotiating round as a tit-for-tat response that maintains a more equal footing in negotiations and prolongs a timetable for expected resolution.

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**Latest threats show-case potential longer term dynamics.** The strategy may also have an eye towards post-deal posturing to show that tariff threats are always looming if commitments are not maintained. We continue to see that Trump views trade/tariff fights as good politics, and the pressure on China is seeing bipartisan support with an encouraging message sent to the President by Senate Minority Leader Chuck Schumer following the announcement. The enforcement dynamic in the deal has engrained tariff snapbacks as a condition, and Sunday's events may offer a preview of what China trade-related news will look like in 2020 if a deal is reached.

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