

Height Commentary

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Trade

Trump's Threat of Another \$267B in Tariffs against China Is Posturing, For Now

THE TAKEAWAY

President Trump's [statement](#) that he has tariffs on yet another \$267 billion in Chinese imports ready to go "on short notice" is the latest example of Trump's tactic of negotiating via threat. Presently, the Administration is still working to finalize tariffs on an additional \$200 billion in Chinese imports and, [per](#) Larry Kudlow, will not move forward on that until they evaluate public comments received over the last month. In short, Trump is shifting to his next threat before he follows through on his current one, doing so out of a desire to hit China while he thinks they are weakest. Before any additional tariff threats become viable, we believe the Administration will need to work through finalizing and implementing the \$200 billion round, which we currently [expect](#) will take until late September. The fact that Trump made his threat of additional tariffs on Air Force One, while traveling to a campaign rally, offers important context for his comments. He intended for this threat to appeal to his base as much as he meant it to pressure China. Moving forward, we expect increasingly aggressive rhetoric from Trump as he looks to bolster his core supporters ahead of the midterm elections.

Can Trump levy an additional \$267 billion in tariffs, on top of the \$53 billion imposed so far and the \$200 billion likely to go into effect shortly? In short, yes. Trump, under Section 307 of the Trade Act of 1974, can make modifications to already-imposed trade remedies (specifically those, like the original China tariffs, imposed under Section 301 of the same act), including increasing tariff amounts or tariffing additional products. These modifications must go through a public comment and review process similar to the original tariffs, but they do not require an additional investigation to justify them. We expect that the US Trade Representative may also move

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slightly faster when finalizing these additional tariffs, but the process from implementation is not instantaneous upon the close of public comments.

Any new tariffs must follow the same proposal, comment, and finalization period. This means that the additional tariffs on \$267 billion in Chinese imports are unlikely to be realized before late fall. We believe they would take even longer to impose since tariffing every remaining Chinese import, which an additional \$267 billion in tariffs would do, is something that would face significant pushback from the business community and industry lobbying groups.

That most recent set of tariffs against \$200 billion in Chinese imports is still working through this process, meaning that Trump's latest threat comes before he is able to deliver on his last. Why would Trump threaten to hit China even harder before the impact of the \$200 billion tariff group is fully realized? This timing demonstrates a key aspect of Trump's thinking: the Chinese have more to lose than the US in the near term, and he should push as hard as he can to take advantage.

As we [noted](#) on June 19, Trump is gambling that he can force China to capitulate before backlash within the Republican base (largely as a result of Chinese retaliation against US agriculture) risks his political fortunes. We do not expect that there will be significant backlash from Republican voters ahead of the midterms as most voters appear to respond positively to Trump's tough approach on trade. We expect this dynamic will continue through midterms, but we foresee greater political risk for Trump in 2019 as the negative repercussions of a trade war are fully felt.

Bearing that in mind, it makes sense for Trump to put as much pressure on China as possible in the near term. This latest threat fits that strategy, and we expect that Trump will repeat his threats as we draw closer to the election on November 6. Trump has faced little real punishment from markets for his previous tariff rounds, and he is riding high on a potential NAFTA deal. Both of those factors buy him space to act more aggressively toward China. As of now, we think Trump's willingness to follow through on his latest threat depends entirely on the response to the next \$200 billion, both in US markets and from the Chinese.

The only real option we see for staving off additional tariffs is a resumption in the talks between the US and China, with China offering significant concessions out of the gate. White House economic advisor Larry Kudlow alluded to ongoing negotiations between the US and China in [comments](#) today, but it is difficult to know if Kudlow's comments fully reflect the current dynamic between the two countries. We are looking for the announcement of any official delegation visits as a sign of progress that could delay further tariffs.

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