The Finance 202: Trump administration dials up pressure on Beijing as new tariffs loom

By Tory Newmyer

THE TICKER

The dice were already loaded against a meaningful breakthrough in U.S.-China trade talks restarting this week.

But the Trump administration is now moving on multiple fronts to dial up tensions with Beijing, raising the question of whether the two sides can strike even a narrower deal to avoid a looming tariff escalation that will kick the trade war into a higher gear. Tariffs on $250 billion of Chinese imports are set to rise from 25 percent to 30 percent on Oct. 15. A second hike — 15 percent duties on another $156 billion of Chinese products — will hit the books on Dec. 15.

Just in the last two days, the White House:

- **Blacklisted** eight Chinese companies core to the country’s ambitions to foster homegrown superiority in the field of artificial intelligence. The Commerce Department pointed to their role suppressing Muslim minority populations in China.
- **Restricted** visas for Chinese officials also involved in that suppression. The move limits the officials’ ability to travel to the U.S.
- **Moved forward** with potential restrictions on U.S. government pension fund investments in Chinese firms.

**Beijing pledged to retaliate for the blacklisting of Chinese firms.** Chinese Foreign Ministry spokesman Geng Shuang said to “stay tuned” for its response. “China will continue to take firm and forceful measures to resolutely safeguard national sovereignty, security and development interests,” he said.
The official tit-for-tat is playing out against the backdrop of an even noisier clash between the world’s two largest economies over basketball and free speech. China’s top television broadcaster canceled plans to air two preseason NBA games after the league’s commissioner defended the free speech rights of the Houston Rockets general manager, who set off a firestorm by tweeting support for the pro-democracy movement on Hong Kong.

“Until fairly recently — last week, actually — there was some hope that a comprehensive trade deal between the U.S. and China could be reached in the relatively near future,” economist Karl Smith wrote in a Bloomberg Opinion piece. “Then Chinese and NBA officials showed just how hard it will be.”

For those not following the nuts and bolts of the Trump administration’s demands for structural economic reforms from Beijing, the conflict paints in vivid hues the gulf in fundamental values separating the superpowers. “We voice our strong dissatisfaction and opposition to [NBA Commissioner] Adam Silver offering as an excuse the right to freedom of expression,” the Chinese broadcaster said in a statement. “We believe that no comments challenging national sovereignty and social stability fall within the scope of freedom of expression.” (Other American companies with extensive business ties to China, meanwhile, are bending over backward not to offend the country’s leadership, my colleagues Jeanne Whalen, Ben Golliver and StevenZeitchik report.)

And while the basketball clash may not have a direct bearing on the trade talks, it echoes the human rights concerns the Trump administration is citing in its decisions on blacklisting Chinese firms and restricting visas. The trade showdown was difficult enough when it was limited to a cold-eyed negotiation over comparative advantage in the two-way commerce between the countries. Broadening the terms to include a dispute over human rights may make even a limited truce impossible.

Stocks fell on the news of intensifying hostilities, with the S&P 500 shedding 1.6 percent and the Nasdaq slipping 1.7 percent. Caterpillar, “often considered a bellwether for global trade,” fell 1.8 percent, the Wall Street Journal noted.
“While equity investors had held out the hope of reaching a mini-deal this week, that is appearing increasingly unlikely,” Beacon Policy Advisors wrote in a note. The firm now gives 60 percent odds that talks later this week between Chinese vice premier Liu He and Treasury Secretary Steven Mnuchin and U.S. Trade Representative Robert E. Lighthizer “end with no major announcements, Trump goes forward with his tariff increase from 25 to 30 percent on $250 billion worth of products on October 15, and China halts its purchases of agricultural goods.”

Beijing appears to be downplaying expectations.

The Chinese delegation may cut its trip to Washington short, returning to China on Friday instead of Saturday, a source briefed on the talks told the South China Morning Post. And an editorial in the Communist Party-controlled Global Times ratcheted down the possibility of a breakthrough. “There are obviously many trade differences between the two countries, the attitude of the U.S. is not sincere, the area of conflict is growing broader, and strategic mutual distrust is increasing,” it said.

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MARKET MOVERS

— Fed to start buying Treasurys again. WSJ's Nick Timiraos: "The Federal Reserve will soon increase its purchases of short-term Treasury securities to avoid a recurrence of the unexpected strains experienced in money markets last month, Fed Chairman Jerome Powell said Tuesday. Fed officials stopped shrinking the assets on their balance sheet in August but never said when they would allow the balance sheet to grow again."
As a result, a crucial liability on the balance sheet—bank deposits held at the Fed, called reserves—have continued declining...

"Mr. Powell emphasized that the coming moves are aimed at maintaining a firm grip on very-short-term lending rates—and not to provide economic stimulus, as the Fed did between 2008 and 2014 by purchasing longer-dated Treasury and mortgage securities in successive campaigns sometimes referred to as quantitative easing, or QE. 'This is not QE,' Mr. Powell said. 'In no sense is this QE.'"

— **Low-income consumers are struggling.** Bloomberg's Claire Boston: "More U.S. households are struggling financially, especially among lower-income consumers, signaling that a growing number of borrowers could fall behind on their debt, according to UBS. An above-average percentage of consumers -- 44% -- reported incomes that don’t cover their expenses, or barely cover them, according to a quarterly UBS survey of around 2,100 U.S. respondents. That figure has risen by a percentage point over the last year...

"Just 17% of households reported their financial condition had improved in the last 6 months, down 3 percentage points from a year earlier. Household spending accounts for about 70% of U.S. economic activity as measured by gross domestic product."
Yield curve expert says prepare for a recession: “Investors, business owners and consumers should be heeding the message that the inverted yield curve is sending, according to the researcher who pioneered the economic forecasting model,” CNBC’s Jeff Cox reports.

“Duke University professor Campbell Harvey said people shouldn’t wait for the economic downturn he anticipates before taking preventive measures.” Per Harvey: "This is the time where you need to reflect upon your strategy. It’s actually easy to manage assets when the economy is booming. It’s much more difficult to manage into a turning point."

Cannabis stocks have flamed out this year
Shares of major pot companies Canopy Growth, Cronos, Tilray and Aurora are all down sharply this year. What will it take for a comeback?

CNN Business

TRADE FLY-AROUND:

— IMF: Trade war will sap $700 billion. NYT’s Ana Swanson: "The new head of the International Monetary Fund warned on Tuesday that America’s trade war with China could cost the global economy around $700 billion by 2020 — a loss equivalent to the size of Switzerland’s entire economy.

"In her first speech as managing director, Kristalina Georgieva said the global economy had shifted from a synchronized upswing two years ago to a synchronized slowdown, weighed down in part by the pain of [Trump’s] trade war. The fund will be downgrading its projections for global growth in 2019 and 2020 next week, when it releases new projections of the economic losses related to the trade war between the United States and China. 'We have spoken in the past about the dangers of trade disputes,' Ms. Georgieva said. 'Now, we see that they are actually taking a toll.'"
TRUMP WATCH:

— Trump weighs weakening rules on corporate inversions: “Treasury Department officials are considering rolling back a tax rule aimed at preventing American companies from moving money offshore to avoid U.S. taxes, according to several people familiar with discussions,” Bloomberg’s Allyson Versprille, Isabel Gottlieb, and Laura Davison report.

“The Treasury is looking at regulations intended to prevent American firms from lowering their U.S. tax bills by shifting income to their offshore branches that they can loan to their domestic branches and deduct the interest off their Internal Revenue Service bills. The department is also contemplating repealing them entirely to replace them with something more business-friendly.”

— So much for ‘Scott free’: “The Trump Organization’s two Scottish golf courses lost $14.3 million in 2018, extending a multiyear string of losses that have intensified since Donald Trump took office, according to annual financial reports released this month,” my colleague Joshua Partlow reports.

“The results add further pressure to two of [Trump’s] key overseas investments at a time when the company faces backlashes on many fronts, including customers who shun the president’s family business for political reasons and golf course neighbors upset by the company’s plans to build hundreds of new homes on bucolic farmland.”

POCKET CHANGE

— More issues over 737 Max’s possible return: “Boeing Co’s delay-prone effort to return 737 MAX jets to service has hit a new snag due to heightened European safety concerns about proposed fixes to the aircraft’s flight-control system, according to people familiar with the details,” the Wall Street Journal’s Andy Pasztor and Andrew Tangel report.
“Disagreements over various software details, centered on how the MAX’s dual flight-control computers are now intended to operate simultaneously, haven’t been reported before. The issue could prolong final vetting of the anticipated changes and may prompt European regulators to withhold their full support when the U.S. Federal Aviation Administration ultimately allows the planes back in the air, these people said.”

— **GM strike affects about 150,000 auto workers:** “The prolonged strike at General Motors Co. is estimated to have hit as many as 150,000 workers in the auto industry, a report from research and consulting firm Anderson Economic Group showed,” Reuters’s Dominic Roshan K.L. reports. “The research firm estimates that the strike has resulted in a $660 million profit hit for GM and more than $412 million in direct wage losses for all employees through the third week of the strike ... The stoppage has also led to $155 million in lost federal income and payroll tax revenue and $9.1 million in lost Michigan income tax revenue.”

**It's not just auto workers.** "From suppliers to shippers to restaurants, the impact of the work stoppage is spreading through the web of businesses whose fates are tied to the biggest American automaker," NYT's Nelson D. Schwartz and David Yaffe-Bellany report. "The most intense economic pain is being felt in the industrial Midwest, where G.M.’s network of plants and suppliers is thickest. It is a difficult time for the region’s manufacturing industry, which even before the strike was contending with slowing auto sales, a weakening global economy and the trade war."

— **Trump’s court picks could play big role in major LGBT cases:** “The Supreme Court appeared divided ... about whether federal discrimination laws protect gay and transgender workers, and [Trump’s] appointments to the court could play the pivotal roles in deciding the outcome,” my colleagues Robert Barnes and Ann E. Marimow report.

“The issue, one of the most significant facing the court this term, concerns the reach of Title VII of the Civil Rights Act of 1964, which, besides protecting against workplace discrimination because of race, religion and other characteristics, also prohibits discrimination ‘because of sex.’ The court has since interpreted that definition to include discriminating on the basis of sex stereotypes.”

**More from inside SCOTUS:** “The arguments touched on some of the most controversial issues of the day — whether it would mean the end of same-sex bathrooms, whether men should be able to compete on female athletic teams, whether dress codes for men and women would become a thing of the past.”
— Facebook refuses to take down Trump ad making false claims. **NYT's Cecilia Kang:** "The 30-second video ad released by the Trump campaign last week is grainy, and the narrator’s voice is foreboding. Former Vice President Joseph R. Biden Jr., it says, offered Ukraine $1 billion in aid if the country pushed out the man investigating a company tied to Mr. Biden’s son. Saying it made false accusations, CNN immediately refused to air the advertisement.

"But Facebook did not, and on Tuesday, the social network rejected a request from Mr. Biden’s presidential campaign to take it down, foreshadowing a continuing fight over misinformation on the service during the 2020 election as well as the impeachment inquiry into [Trump]... The decision by the company illustrates its executives’ hardened resolve to stay out of the moderation of political speech, despite the use of the social network to spread discord and disinformation in the 2016 presidential campaign."

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**CHART TOPPER**

— **Economists:** **American billionaires paid lower tax rates than the working class last year. The Post's Christopher Ingraham:** "A new book-length study on the tax burden of the ultrarich begins with a startling finding: In 2018, for the first time in history, America’s richest billionaires paid a lower effective tax rate than the working class. 'The Triumph of Injustice,' by economists Emmanuel Saez and Gabriel Zucman of the University of California at Berkeley, presents a first-of-its kind analysis of Americans’ effective tax rates since the 1960s.

"It finds that in 2018 the average effective tax rate paid by the richest 400 families in the country was 23 percent, a full percentage point lower than the 24.2 percent rate paid by the bottom half of American households. In 1980, by contrast, the 400 richest had an effective tax rate of 47 percent. In 1960, their tax rate was as high as 56 percent. The effective tax rate paid by the bottom 50 percent, by contrast, has changed little over time."

**Some take issue with the analysis.** More from Ingraham: "Other economists have generated estimates of that distribution that show smaller disparities between the country’s haves and have-nots... On the question of tax burdens, Jason Furman, an economics professor at Harvard who chaired the White House Council of Economic Advisers under President Barack Obama, noted that Saez and Zucman did not include refundable tax credits, such as the earned-income tax credit (EITC), in their analysis."

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**DAYBOOK**

**Note:** Congress remains on recess.

**Upcoming:**

Delta Airlines is among the notable companies reporting its earnings on Thursday, per Kiplinger.
The American Enterprise Institute hosts an event called “Monetary policy in the 21st century: An Allan Meltzer perspective” on Thursday.
Bloomberg hosts an event on the future of corporate governance on Thursday.

THE FUNNIES

From The Post's Tom Toles:

BULL SESSION

0 Comments

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