

China offers plan to ease trade tensions with US

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China has bowed to pressure from the US to reduce its American trade surplus, putting forward a 100-day plan for negotiations and trade deals.

The plan was agreed upon at the meeting last week between US President Donald Trump and Chinese President Xi Jinping at Trump's residence in Mar-a-Lago, Florida.

Held in the midst of the US missile attack on Syria—the strike was launched while Trump and Xi were at dinner on Thursday—the meeting on trade was the occasion for US Commerce Secretary Wilbur Ross to advance a series of trade issues he wanted discussed. The Chinese response was the proposal for a 100-day plan for negotiations.

The Trump administration has threatened to impose tariffs on Chinese imports and even brand China a currency manipulator—measures that would set off a trade war between the two countries. Both Ross and Peter Navarro, the head of Trump's National Trade Council, have made statements to the effect that they regard Chinese economic growth and its trade surplus with the US as among the main factors responsible for low American growth.

Before the meeting, Trump had tweeted that the discussion with his Chinese counterpart could prove to be “very difficult.”

The Chinese proposal is aimed not at reducing the country's exports to the US, but offering concessions to expand markets for US goods in China. The goal is to reduce China's \$347 billion trade surplus with the US.

Details of the plan have yet to be worked out, but are expected to involve concessions on agriculture, starting with the lifting of a ban on American beef that has been in place since 2003 because of a disease scare in US herds. There may also be commitments by China to

purchase more American grain products.

The other key area is finance, with the US seeking opportunities in China's rapidly expanding financial markets. At present, foreign investors are not allowed to hold a majority stake in securities and insurance companies in China. Negotiations to allow majority foreign holdings had been under discussion during the Obama administration, but were put on hold when Trump won the presidency. They could now go ahead under the 100-day plan.

Speaking after the meeting, Ross said Chinese officials had agreed to what he called a more “balanced” trade relationship. “They expressed an interest in reducing their net trade balance because of the impact it's having on money supply and inflation. That's the first time I've heard them say that in a bilateral position,” he said.

Up to now, the Chinese position has been that while China enjoys a large trade surplus with the US, its overall trade surplus is not large, and the surplus with the US is a product of the international division of labour. China has also claimed that the trade surplus would be lower if the US lifted restrictions on the sale of certain high-tech products.

Ross said that trade discussions, especially between China and the US, normally involved years. Given the range of issues involved, the 100-day plan might be ambitious, “but it's a very big sea change in the pace of discussions.”

News of the agreement was greeted with expressions of relief that an all-out trade war had been averted—at least for the present.

“The atmosphere at the talks was good,” Chu Shulong, professor of international relations at Tsinghua University in Beijing told the *Financial Times*. “Trade is the most worrying issue for the US

and China. But it looks like a trade war can be averted for at least the next 100 days while the two sides negotiate.”

According to Andrew Nathan, a China specialist at Columbia University, US negotiators would be pushing on a door “that is relatively easy to open when they place a priority on improving the trade balance not by limiting Chinese exports to the US, but by increasing US exports to China.”

The latter route is more attractive to US business because any barriers against Chinese exports to the US would significantly disrupt the global supply chains of major US firms such as Apple, Microsoft, Walmart and others that depend on Chinese manufacturing. Such measures would not bring manufacturing back to the US, as claimed by Trump, but see the transfer of production to other cheap labour countries.

The US Treasury is expected to bring down its biennial currency report this week, in which it could label China a currency manipulator. This is considered very unlikely in light of the agreement last week. Moreover, China in the past few years has taken significant steps to maintain the value of the yuan.

Writing in the *Financial Times* yesterday, former US Treasury Secretary Lawrence Summers noted: “In terms of the volumes of reserves expended and the extent of capital controls imposed, few countries in recent years have done as much to try to prop up their currency as has China.”

While Ross adopted a seemingly conciliatory tone immediately after the meeting, a harder line could be seen in his comments over the weekend.

“Words are easy, discussions are easy, endless meetings are easy” he told *Fox News* on Sunday. “What’s hard is tangible results, and if we don’t get some tangible results within the first 100 days, I think we’ll have to re-examine whether it’s worthwhile continuing them.”

Trump struck a conciliatory tone, saying it had been an “honour” to host President Xi and his wife and that goodwill and friendship had been established. He added, however, that “only time will tell on trade.”



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