

US-China trade talks conclude in acrimony

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Two days of trade talks between the US and China this week have produced nothing in the way of concrete results, only a commitment by both sides to continue the discussions on specific items amid growing tensions.

The talks, which were agreed upon at the meeting between US president Donald Trump and Chinese President Xi Jinping in April, got off to a somewhat acrimonious start when at the end of the first day both sides cancelled scheduled press conferences.

At the opening of the discussions, US commerce secretary Wilbur Ross struck a belligerent tone as he demanded action by China to reduce its \$309 billion trade surplus with the US.

Standing beside Chinese vice-premier Wang Yang, he said: “China now accounts for nearly 50 percent of the US goods trade deficit. If this were just a natural product of free market forces we could understand. But it’s not and so it is time to rebalance our trade and investment in a more fair, equitable manner.”

Ross did not elaborate further but the implication of his remarks is that the Chinese state plays a central role in “unfair” trade practices detrimental to the US. But this kind of accusation goes beyond China. The core of Trump’s “America First” trade agenda is that the global trading system as it is currently established is detrimental to the interests of the US and must be changed in the interests of “fair” trade.

Following the blast from Ross, Wang tried to strike a conciliatory tone. He acknowledged that discussions had become more difficult and that the talks were an “even more daunting task” and then added:

“We can think like a champion but we don’t need to defeat each other in [tackling] our differences. Pursuing co-operation is the best way forward.”

The US maintained its aggressive stand as the talks concluded. US treasury secretary Steven Mnuchin told the *Financial Times* the US had taken a “very big step”

toward reducing its deficit with China and that Beijing had “heard ... the marching orders.”

Once again Wang tried to put the best face on a bad situation saying in a statement issued after the meeting that both sides had agreed to “work constructively” to reduce the deficit and that they had reached “a broad consensus on a wide range of issues.” They shared the view that the most important outcome of “this round of dialogue is that it has charted the course of China-US economic co-operation.”

But these remarks cannot cover up the fact that the two sides are deeply divided. As Evan Medeiros, a former Asia adviser under the Obama administration noted, in a comment reported by the *Financial Times*, the meeting “had all the signs—no joint statement, or press conference, no outcomes—of serious and sustained tensions rapidly emerging due to deep differences.”

Under the agreement reached between Trump and Xi in April, there was to be a 100-day plan to address the trade issues. The process appeared to have got off to a good start when China lifted restrictions on US beef imports due to an earlier cattle disease scare. But since then nothing has emerged.

Reports of the discussions said they had been “quite tough” and the US was not prepared to “settle for the crumbs the Chinese were offering.”

Mnuchin said very specific targets would be discussed sector by sector in coming discussions. Ross elaborated further saying those targets would have to be defined along with a “reasonable period of delivery,” citing opening financial services, the placing of tech companies “on a level playing field” with the objective of “substantially” increasing US exports to China.

One of the key issues hanging over the talks was the question of steel. At the direction of Trump, the US commerce department is working on, or has already prepared, a report to the president on whether to use a section of a 1962 piece of legislation giving him the

power to impose tariff or other restrictions on steel imports on “national security” grounds.

It had been thought that Trump may have announced a decision around the time of the G20 meeting earlier this month. Questioned by a reporter on Wednesday on whether tariffs would be imposed on steel, Trump responded that it “could happen.”

Pressure is mounting on Trump from the US steel and aluminium firms. On Tuesday a group of these companies delivered an open letter to Ross calling for “remedial action” on national security.

Commenting on the letter, Michael Stumo, chief executive of the Coalition for a Prosperous America, one of the signatories, said: “For too long, America has tolerated China’s massive and strategic subsidising of its state-controlled industries, including steel and aluminium. Other countries take action on national security grounds to preserve industries but the US has not, as yet, done so.”

And the push goes beyond steel. It was time for the US to “assert its rights more forcefully in manufacturing and agriculture,” Stumo said.

While the issue on steel is largely being couched in terms of action being necessary against China, any tariff or other restrictions will have a much broader impact. The countries which could be hit include Brazil, Canada, South Korea and the European Union. They may be even more adversely affected than China, because Chinese exports are concentrated in low-grade products which US steel companies are reluctant to manufacture.

If the US does invoke bans on national security grounds—a measure which has been described as the “nuclear option” on trade—it could rapidly lead to an all-out trade war with retaliatory action directed against American firms in other areas.

At the time of the G20, when it was expected that the US could order steel bans, it was reported that EU officials had drawn up a list of US goods, including whiskey, orange juice and dairy products as possible targets for retaliation.

Speaking on the eve of the G20 summit, which subsequently revealed the widening divisions between the US and Europe, European Commission president Jean-Claude Juncker did not spell out details but said the EU would respond to any US steel sanctions.

“Our mood is increasingly combative he said,

warning that any response would come in “days,” not months.

That is, if Trump does go ahead with steel restrictions it could bring about an all-out trade war. The tensions surrounding the two days of US-China talks indicate that this prospect has moved closer.



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