

# US and China to hold trade talks as tariff deadline looms

**Nick Beams****26 April 2018**

US Treasury Secretary Steven Mnuchin will travel to China for trade discussions, possibly next week, ahead of the planned imposition of tariffs on up to \$150 billion worth of Chinese goods, due to come into effect by the end of May.

Speaking on the negotiations during a press briefing with visiting French President Emmanuel Macron, President Donald Trump said there was “very good chance of making a deal.” But if no agreement were reached, the US would proceed with “very substantial tariffs” on Chinese imports.

Mnuchin first raised the possibility of a visit during the International Monetary Fund meetings last weekend. According to a *Wall Street Journal* report, he initially planned to make a visit on his own. But the negotiating team will include US Trade Representative Robert Lighthizer and possibly White House trade adviser Peter Navarro, both of whom are regarded as “hawks” on the issue of China trade.

According to the *Journal*’s report, the composition of the team “reflects divisions within the administration.” Mnuchin regarded as significant the recent speech by Chinese President Xi Jinping, offering concessions on restrictions on foreign auto firms and investment rules, while Lighthizer and Navarro considered that view to be naïve.

In the event, Mnuchin heads the team but he will be accompanied by what could be described as “minders.” The divisions are such that Scott Kennedy, a China specialist at the Washington-based Center for Strategic and International Studies, said his concern was that “the primary negotiations in Beijing will be between members of the American team rather than between the Americans and Chinese.”

There is considerable doubt as to whether the talks will produce anything of substance and avoid the

measures and counter-measures being put forward by both sides. A decision on the imposition of the initial tariffs on \$50 billion worth of Chinese goods is set to be made on May 22. Proposals are also being drawn up for the imposition of tariffs on an additional \$100 billion worth of goods, foreshadowed by Trump following China’s counter-measures directed against US agricultural products.

A report by Bloomberg said that if recent history is a guide, “the trip may be long on ceremony and short on concrete outcomes.” It noted that a 100-day action plan announced during a summit between Trump and Xi last year did little to address trade imbalances and that a two-way formal economic dialogue had been suspended.

Michael Hirson, head of China research at the Eurasia Group and formerly the US Treasury Department’s chief representative in Beijing, told Bloomberg it was unlikely the talks would prevent the tariffs taking effect, “given the credibility each has staked in showing resolve.”

“Beijing will not make steep and immediate concessions. Xi is too confident in his political strength vis-à-vis Trump and too determined to avoid vindicating Trump’s pressure tactics.”

Similar views were voiced in the *Financial Times* by Mei Xinyu, a strategist for the Chinese Ministry of Commerce, described as being “known for his hawkish views.”

“That the US is willing to send people over is progress, but I think we need to set some conditions, that the US should act according to WTO [World Trade Organisation] regulations and not US domestic law,” Mei said. “‘Talks’ shouldn’t mean the US unilaterally imposing its demands. If the US wants to wield its domestic law unilaterally it should withdraw from the

WTO.”

The US measures are being introduced under section 301 of the 1974 Trade Act, which authorises a president to take action against trade practices deemed to be unjustified or that burden or restrict US commerce. The Trump administration is eschewing any moves within the WTO because it regards that body as a barrier to US interests.

Publicly, Trump rails against the US-China trade deficit—\$375 billion last year and potentially even higher this year. But the administration regards China’s “Made in China 2025” program of developing capacities in high-tech areas, such as communications, robotics and artificial intelligence, as more significant, threatening US economic and even military dominance in these key areas.

Further moves are being considered on this front. The *Wall Street Journal* reported that the US Justice Department is considering whether the giant Chinese communications firm Huawei has violated US sanctions related to Iran.

No details were provided on how far the probe has advanced and what specific issues are being investigated. But the report said a “worst case scenario could entail Huawei suffering the same fate as smaller Chinese rival ZTE which lost access to US-made components in a similar probe.”

The Trump administration has banned US companies from supplying components to ZTE for seven years under a finding that ZTE breached an agreement reached over its alleged violations of sanctions on North Korea and Iran.

Any action against Huawei would not be directed against its sales of products to the US. It barely has a US market for its goods, having been previously barred on national security grounds. But Huawei is a very significant player in the international telecommunications market, with major interests in the UK. It is the world’s largest maker of cellular-tower electronics and other equipment.

Huawei featured in a key decision by the Trump administration earlier this year to ban the takeover bid by Broadcom for Qualcomm, a major manufacturer of chips and other high-tech products. The basis for the decision was that if the takeover went ahead, Broadcom would cut back on research and development expenditure in order to finance the deal, and this would

advantage Huawei in the race to develop 5G phone technology.

Placed within the broader context of the mounting US measures aimed at China’s development of high-tech products, which it regards as a longer-term existential threat, the trade talks scheduled to take place in Beijing parallel the negotiations with North Korea,

That is, they are not so much aimed at averting a trade war but rather are part of the preparations for the launching of a conflict should it be considered necessary.



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