China-US talks but trade war set to escalate

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20 August 2018

Trade talks between US and Chinese delegations will take place this week on the eve of what could be a major escalation by Washington in its tariff war against Beijing. Tariffs of 25 percent against $16 billion worth of Chinese goods are due to come into effect on Thursday with China to impose retaliatory measures on the equivalent amount of US products, bringing to $50 billion the value of goods being hit by each.

Further measures are in the pipeline as the US Commerce Department holds public hearings this week on a proposal to impose tariffs of up to 25 percent on a further $200 billion worth of Chinese goods. In response, Beijing has indicated it will impose measures on $66 billion worth of US products along with other, so far unspecified, retaliatory actions. These new imposts could be in place by next month or early October.

No concrete proposals to resolve the intensifying conflict are expected from the latest discussions because the two negotiating teams comprise lower-level officials who do not have the authority to make final decisions.

The Chinese delegation, which is expected to be in Washington for two days, will be led by Wang Shouwen, the Vice Commerce Minister, while the US delegation will be headed by Treasury Undersecretary for International Affairs, David Malpass.

Previous Chinese trade delegations have been led by Vice Premier Liu He. But Beijing has downgraded its representation after Liu reached an agreement last May with US Treasury Secretary Steven Mnuchin to increase Chinese imports from the US by up to $100 billion only to have the deal overturned by President Trump.

The basic point of conflict remains the demand set out by the US in its position statement presented to Beijing last May that China not only lessen the trade deficit but should also significantly pull back on its plan to boost its industrial and technological base under its "Made in China 2025" plan.

The US claims this project is being developed through the theft of intellectual property rights, forced technology transfers and the use of state-subsidies to high-tech industries to give them an unfair advantage in global markets. Key officials in the Trump administration, including US Trade Representative Robert Lighthizer and economic adviser Peter Navarro, regard China's technological development as a major threat to US economic, and ultimately, military supremacy.

While China has agreed to expand its imports from the US and toned down official references to "Made in China 2025", there is deep opposition in Beijing to what is seen as a US drive to halt its economic development.

"The Trump administration has made it clear that containing China's development is a deeper reason behind the tariff actions," He Weiwen, a former commerce ministry official, told Bloomberg. The news agency said these sentiments were echoed by many of the more than two dozen current and former government officials, researchers and business executives it interviewed.

The *Wall Street Journal* has reported the US Treasury and the National Economic Council, headed by Larry Kudlow, have prepared a list of pared-down demands for China which they believe could be the basis for a trade deal. Both Mnuchin and Kudlow are regarded as being in favour of measures to reduce the trade deficit which could be presented as a victory for Trump's measures. However, according to the article, "the US trade representative's office, which is in charge of tariffs, wants to hold off on negotiations, arguing that additional levies would give the US more bargaining power by October."

The article said Trump had not decided on which of the two camps to support and would weigh in when a deal was on the table. But that won't result from this week's meeting because neither side has the power to do so.

In any event, the direction of the administration is to more aggressive actions against China. After overturning the May agreement between Mnchuin and Liu to put trade war "on hold", it went ahead with the imposition of tariffs on $50 billion worth of goods. Trump then decided that proposed tariffs on a further $200 billion should be lifted from 10 to 25 percent.

A tweet by Trump at the weekend indicated that further measures may under be under consideration and pointed to the underlying source of the political conflict engulfing Washington, which is being driven by the push from the military-intelligence apparatus, the Democratic Party and key sections of the media for a more aggressive policy towards Russia.

"All of the fools that are so focussed on only looking at Russia should start also looking in another direction, China," he tweeted.

In addition to the threat of additional tariffs, the US has made clear that China, one of the major markets for Iran oil, will face secondary sanctions after a US-imposed deadline to halt purchases comes into effect from November 4. The US issued the threat in the wake of its unilateral withdrawal from the 2015 Iranian nuclear deal.

Asked about US plans for China if it makes good on its insistence that it will continue to trade with Iran in oil and other commodities, Brian Hook, the head of the newly established Iran Action Group at the US State Department, said: "The United States certainly hopes for full compliance by all nations in terms of not risking the threat of secondary sanctions if they continue with those transactions."

Since the initial US tariffs against China were imposed on July 6, both the Chinese currency and stock markets have suffered significant falls. The benchmark index for the 50 largest companies on the Shanghai and Shenzhen markets is down by 15 percent and the yuan is down by almost 7 percent against the US dollar.

There are now concerns that existing tariff imposts and the threat of further measures could start to impact on the broader economy. Over the weekend, China's banking regulator directed banks to support infrastructure projects and export companies. It said the banks should offer support for companies and projects facing "temporary difficulties" and that they should "effectively promote stable employment and stabilise for trade and investment."

One major problem for the Chinese government is that they have no clear idea as to where the US government intends to strike next. No-one is hopeful of a positive outcome from this week's discussions in Washington, and, as a source close to Beijing policymakers told the *Financial Times*: "Chinese officials are worried because they can't see the end-game."