

# China-US trade talks: The divisions deepen

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Talks between mid-level US and Chinese officials in Washington last week did not result in any moves towards a resolution of the trade conflict between the world's number one and number two economies but rather in a deepening of the divisions.

At the conclusion of the two-day discussions on Thursday evening, White House deputy press secretary Lindsay Walters said the two sides had “exchanged views on how to achieve fairness, balance and reciprocity in the economic relationship,” but did not provide details of any possible progress.

A statement from the Chinese Commerce Ministry said they had held “constructive and frank” talks and said it would stay in contact about the next step. There was no indication as to if, and when, further discussions might be held.

Even before the talks had got underway, US President Donald Trump set the tone in an interview with Reuters in which he indicated he expected little progress and that he had “no time frame” for ending the conflict. He said it would “take time because China’s done too well for too long, and they’ve become spoiled. They dealt with people that, frankly, didn’t know what they were doing, to allow us to get into this position.”

The dominant view in the administration, articulated by US Trade Representative Robert Lighthizer and economic adviser Peter Navarro, is that China’s attempt to develop its industrial and technological base is an existential threat to the economic and ultimately military dominance of the US and must be severely curtailed, if not prevented.

These positions were expressed in the press briefing provided by an unnamed “senior Trump administration official” at the conclusion of the latest discussions.

“We have said consistently since the beginning of the administration that we are open to talking to China about the problems that we have had with their trade practices, with their industrial subsidies, and with a

whole range of state-led intervention in the economy that is affecting global markets,” the official remarked.

“But in order to get a positive result out of these engagements, it’s really critical that they address the fundamental concerns that we have raised. We haven’t seen that yet.”

Those “fundamental concerns” were set out in a US position paper delivered to Beijing at the beginning of May. They amounted demands that the “Made in China 2025” plan for industrial and technological development and the accompanying state subsidies for key industries cease and that China halt its attempts to acquire US and other Western-developed technologies either through theft and forced technology transfers from US firms operating in the country. It also called on China to take no retaliatory action against any tariff or other measures the US may impose.

According to a report in the *Wall Street Journal*, citing sources close to Vice Premier Liu He, who is in overall charge of China’s trade stance, Beijing’s view is that US demands are made up of three components.

Around 30 to 40 percent involve additional Chinese purchases of US goods which can be met immediately. Evidence of this was seen in May when China offered to purchase up to \$100 billion of additional US goods only to see a potential deal overturned by Trump within a matter of days.

A second component involves market openings for US firms, such as increased opportunities for US and other foreign financial firms to gain a greater percentage of Chinese ventures and to have greater freedom to operate. Beijing’s position is that this could take some years to achieve.

The third component involves US demands for changes in China’s industrial and technology policies over which Beijing has refused to negotiate. The US demand for China to halt its industrial development and end state subsidies to major firms has been widely

criticised as being impossible to carry out.

Commenting on the outcome of the discussions, Phil Levy, senior fellow on the global economy at the Chicago Council on Global Affairs, told the *Financial Times*: “The Chinese have made attempts and they keep making them, but they keep getting rejected. I don’t think this White House has put together a set of coherent demands that the Chinese could conceivably meet.”

China expert Eswar Presad of Cornell University told the newspaper that the trade dispute had become a “very complicated game of chicken.” He continued: “The Chinese see an opening to restart negotiations but the difficulty they face is an inflexible and unpredictable US trade policy.”

Even as the latest round of talks was being held, the US was preparing for a major escalation against China. The Commerce Department held meetings last week at which it took submissions from industry representatives on the latest US tariff proposals. The administration is preparing to impose tariffs on \$200 billion worth of Chinese goods. These could be possibly as high as 25 percent, after Trump had initially flagged a 10 percent impost before dismissing it as not sufficient.

The new measures, which could go into effect as early as the end of September, would be in addition to the 25 percent tariff on \$50 billion worth of goods that came into full effect, along with Chinese retaliatory measures, last week.

The first round largely excluded consumer products but the new round, if it goes ahead, will hit a far wider range of US producers who rely on China as part of their global supply chains.

The hearings, which lasted several days, saw a stream of smaller scale manufacturers warning they could be severely impacted. One manufacturer of wooden containers for fruit and vegetables, while expressing general support “for what the administration is trying to accomplish” in regard to China, warned that “it can very difficult for a decent amount of companies to overcome some of these issues.”

A manufacturer of paper bags said there would be “instant disruption” if the imposition of tariffs made it too costly to source production in China and there would be “no shopping bags in malls across America on Black Friday, at Christmas and into perpetuity.”

The overwhelming majority of submissions by

manufacturers were for an exemption for the goods that form part of their supplies.

While some products may be excluded from the final list, as was the case in the initial round of tariff imposts, the view of the most strident anti-China hawks within the administration is that because China has so far not given way on the core US demands the pressure must be intensified.



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