Trump manoeuvres ahead of US-China trade talks

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President Trump has stated he has received a response from China over US trade demands in the lead-up to talks with President Xi Jinping at the G20 summit to be held at the end of the month, amid moves and counter-moves by both sides and within the White House.

Trump told reporters yesterday the Chinese response was largely complete but was missing four or five big issues. He said: "They sent a list of things they are willing to do, which is a large list and it is just not acceptable to me yet."

Trump's remarks that China "wants to make a deal" initially sent the stock market up, only to lose most of those gains after administration officials said not too much should be read into Trump's remarks because it was unlikely an agreement would be struck soon.

No details of the proposed Chinese concessions have been released. They are likely to include an agreement to purchase more US products in the areas of agriculture and energy and possibly to open up some parts of the Chinese economy and financial system to US investment.

But the "big issues" cited by Trump remain. These involve action by China over the alleged theft of intellectual property rights and forced technology transfers and the use of state-subsidies to back key industries, which the US insists is "market distorting."

The Trump administration has not moved from its central demands set out in a document drawn up last May in which it essentially demanded that Beijing scrap its "Made in China" program for industrial and technological development and assume a subservient economic position in relation to the US.

According to a Bloomberg report, the Chinese list was "structured as a written response to the US demands." But Beijing's offer didn't address "White House concerns" over forced technology transfers and "also missing were any concessions related to what the US has claimed are state-directed Chinese cyber-attacks on American companies to steal intellectual property."

The initial presentation of US demands was followed by agreement on a series of measures to reduce the Chinese trade deficit after talks between US Treasury Secretary Steven Mnuchin and China's chief trade negotiator Vice Premier Liu He. However, after Mnuchin declared the trade war had been put on "hold," Trump upended the deal a few days later on the grounds that it was not sufficient.

Since then the persistent line coming from all sides of the US administration, including from those such as economic advisor Larry Kudlow who is regarded as less hawkish on China, has been that Beijing must agree to significant "structural" changes in its economy before any agreement can be reached.

But notwithstanding the broad agreement, there are sharp differences within the Trump administration over the way in which the trade war should be conducted. They emerged into the open last week during an extraordinary address by White House trade adviser Peter Navarro to a major Washington think tank.

He told the Center for Strategic and International Studies that a "self-appointed group of Wall Street bankers and hedge fund managers" were part of a Chinese "influence operation" aimed at trying to push the White House into a deal with China at the G20 meeting.

"The mission of these unregistered foreign agents, that's what they are… is to pressure this president into some kind of deal," he said.

Navarro claimed that if a deal were reached in the scheduled talks between Trump and Xi it would have the "imprimatur of Goldman Sachs."

After this outburst, it was reported that the White House had decided to curtail Navarro's public activity, following comments by Trump's top economic advisor Kudlow that his remarks "were way off base."

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But the sidelining of Navarro is very much a manoeuvre as Trump attempts to put a positive spin on prospects for an agreement at the talks with Xi. He would rapidly return to full prominence if Trump undertakes another tactical shift.

Moreover, Navarro is by no means the sole anti-China hawk within the administration. One of the key roles is played by US Trade Representative Robert Lighthizer, who has repeatedly made clear that while question of the size of the trade deficit its important, the central issue is the "structural" changes that must be made in the Chinese economy.

Lighthizer considers that Beijing will only come to an agreement with the US when the trade war measures begin to significantly impact on the Chinese economy and that point has not yet been reached.

While no specific deal is expected to come from the G20 discussion in Buenos Aires, there may be agreement for more discussions. But any further negotiations will raise two central questions for Beijing. Firstly, will any agreements reached in such talks be followed through or will they be simply overturned as happened last May? Secondly, what will happen to the further tariff measures threatened by Washington?

At present the US has imposed a 25 percent tariff on $50 billion of Chinese industrial and a 10 percent tariff on a further $200 billion, which is set to rise to 25 percent at the start of next year. Furthermore, Trump has threatened to impose tariffs on all remaining imports from China.

If there are to be further negotiations, the very least Beijing could insist on is that the tariff escalation set for next year not go ahead. But any such commitment would likely provoke significant opposition from the strident anti-China factions of the administration.

Reports earlier this week that Lighthizer had indicated to industry executives that the next tranche of tariffs had been put on hold brought a swift response. A spokesman for the trade representative said: "Ambassador Lighthizer has made no representations to industry executives that future Section 301 tariffs are on hold. The plan for the tariffs… has not changed at all. Any reports to the contrary are incorrect."