US-China trade talks to resume as deadline nears

Nick Beams
8 February 2019

A top-level US delegation will travel to Beijing next week to meet with key members of the Chinese government. The talks could determine whether the Trump administration will increase the 10 percent tariff it has imposed on $200 billion worth of Chinese goods to 25 percent after March 1, 2019.

The US delegation is being headed by Treasury Secretary Steven Mnuchin and US Trade Representative Robert Lighthizer. It will meet with Chinese officials led by Vice Premier Liu He. The discussions will take up issues that were unresolved from the talks in Washington at the end of last month. They centre on the US demand for “structural” changes in the Chinese economy and the mechanisms for the “enforcement” of any agreement.

The changes being demanded by the US involve action to halt alleged “forced technology transfers” from US companies operating in China, which Beijing denies takes place, as well as “protection” of US intellectual property rights, and the cutting of state subsidies to Chinese industries which Washington says are “market distorting.”

While there was a degree of positive “spin” placed on last month’s discussions by the Trump administration—not least in order to ensure that financial markets were not spooked by the prospect of a collapse in the negotiations—little progress has been reported on the key US demands. Yesterday, markets fell on the news that Trump would not be meeting with China’s President Xi Jinping before the March 1 deadline expires.

There was a significant reference to the key issues in the talks during Trump’s State of the Union address delivered on Tuesday. With the fulsome support of the Democrat members of Congress, he made specific reference to the question of “structural” issues, something of a departure from his previous practice in which he has spoken only in general terms about the need for a deal with China.

In his remarks on the economy, Trump said “one priority is paramount—reversing decades of calamitous trade policies. We are now making it clear to China that after years of targeting our industries, and stealing our intellectual property, the theft of American jobs and wealth has come to an end.”

He declared that he had “great respect” for China’s President Xi Jinping and that they were “now working on a deal.” The “deal,” he stressed however, “must include real, structural change to end unfair trade practices, reduce our chronic trade deficit and protect American jobs.”

But Chinese agreement to meet US demands for “real, structural change” would involve nothing less than reversing its program for industrial and technological development, which is considered paramount by the Chinees capitalist oligarchy, but regarded by its US rivals as a threat to their global economic and military dominance.

The US terms were set out in a document presented to China last May, which demanded that China reduce its trade surplus of $375 billion by $200 billion within two years, scrap subsidies and other state support that is provided for major industries and not retaliate against any tariffs the US imposed.

A key paragraph gave an indication of its dictatorial tenor, stating: “In light of China’s prevailing investment restrictions and state-directed investment in sensitive US technology sectors, including industrial plans such as Made in China 2025, China confirms that it will not oppose, challenge or otherwise retaliate against the United States’ imposition of restrictions on investments from China in sensitive US technology sectors or sectors critical to US national security."

A *Wall Street Journal* this week noted that this document "has continued to be central to the talks."

It reported that while China had agreed to negotiate on some of the demands, the Beijing regime has declared others to be off limits because they threaten its national security.

Following further discussions in Washington and Beijing, the list of non-negotiable issues was reportedly reduced by China, according to an anonymous official cited by the *Journal*, but the two sides remain at an impasse.

Besides the question of the demands themselves, there is the issue of enforcement, which Lighthizer has insisted is crucial to any agreement.

The US will not accept an agreement by China to meet its demands on intellectual property via its legal system or sign off on assurances by Beijing that it will cut state subsidies. Washington is insisting on some kind of direct involvement in any oversight mechanism. However, if Xi's regime accepted US "inspection" of its legal system or government economic decision-making, it would be viewed within the Chinese ruling elite as an intolerable surrender of national sovereignty.

Trump's State of the Union address also pointed to other measures on the trade front. He called for Congress to approve a bill drafted by his White House adviser Peter Navarro, a leading anti-China hawk who is equally hostile to Germany, which would allow Trump to impose tariffs on products "if the president determines" that either "tariff or non-tariff barriers" are higher than those imposed by the US.

He also called on Congress to pass the US-Mexico-Canada Agreement (USMCA) which has replaced the NATFA trade deal. Passage of the pact is being held up because of opposition from the Democratic Party, which now controls the House of Representatives and from sections of Trump's own Republican Party.

Trade conflicts with Europe were put on hold last July when an agreement was struck between Trump and the president of the European Commission, Jean-Claude Juncker. The two sides agreed that the US and the European Union would conduct talks on tariff reductions and other trade barriers. The agreement was made under the threat that the US would impose heavy tariffs—possibly as high as 25 percent—on European cars and auto products, ostensibly on "national security" grounds.

The US Commerce Department is still set to publish a report on February 17 as to whether auto imports constitute a threat to US national security. It could well be used as lever against the EU, which is resisting US demands that agriculture be included in the tariff reductions. Its negotiators have insisted that the July agreement applied only to regulatory reforms and lowering trade barriers on non-auto industrial goods.

Last month, US Senator Chuck Grassley, described as a close ally of Trump, indicated that the president was leaning towards imposing auto tariffs as a means of forcing the EU to open its markets to increased American agricultural exports.

In a briefing to reporters Grassley said the EU was "very afraid" of auto tariffs and they could be the "instrument that gets Europe to negotiate" on agriculture. While he declared he was not personally in favour of tariffs, he asserted that they were a "fact of life" with Trump in the White House and could be "an effective tool."