No agreement on US-China trade with talks to continue

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The week-long trade talks in Beijing between top-level representatives of China and the US ended on Friday without any agreement. Negotiations are to continue in Washington next week.

The next round will be virtually the last chance to reach a formal agreement before a March 1 deadline after which the US will increase tariffs—from 10 to 25 percent—on $200 billion worth of Chinese goods.

Even if a deal is reached it will not take the form of a detailed document. According to a statement issued by the White House, “United States and Chinese officials have agreed that any commitments will be stated in a Memoranda of Understanding (MOU) between the two countries.”

The statement said detailed and intense discussions had led to “progress” but “much work remains.”

If an MOU is reached, along the lines of those established between the US and the European Union and the US and Japan, the drawing up of a final agreement would take place with existing US tariffs remaining in place. Thus the threat will remain that further measures would be imposed if the detailed discussions broke down.

Commenting on the outcome of the latest round of talks, US President Trump said they were going “extremely well” but then added: “Who knows what that means because it only matters when we get it done.”

Following his meeting with the US delegation, China’s President Xi Jinping offered no details saying only that China and the US are “inseparable” and “co-operation is the best choice.”

China’s official Xinhua News Agency said the discussions had made “important, interim progress.”

US Trade Representative Robert Lighthizer said the US felt “we have made headway on very, very important and difficult issues” without providing any details.

The comments by Trump and Lighthizer, together with a tweet by US Treasury Secretary Steven Mnuchin that “productive meetings” had been conducted, were enough to give a boost to the US stock market. The Dow finished up by more than 440 points or 1.7 percent for the day.

The White House statement said the key US concerns were so-called “structural issues, including forced technology transfer, intellectual property rights, cyber theft, agriculture, services, non-tariff barriers, and currency.” The two sides were also discussing increased Chinese purchase of US goods to reduce the trade deficit.

China has denied that it engages in forced technology transfers, insisting that any such transfers are part of agreements reached by US companies to gain greater access to Chinese markets. It has also committed to tightening laws on intellectual property. However, these measures are regarded as insufficient by the US.

Another key point, not specifically mentioned in the White House statement, has been China’s state subsidies to its leading corporations, which the US claims are “market distorting.” China regards the US demands for such subsidies to be wound back as a means of intervening in the running of its economy and therefore not negotiable.

According to a *Financial Times* report, during the negotiations China promised to provide a list of all central and local government subsidies in accordance with World Trade Organisation requirements to ensure that they complied with WTO rules.

However, this was treated with scepticism by the US negotiators. “China’s system is so opaque that you would have to take their word that the WTO notification is complete," one of Lighthizer's staff told the newspaper.

This dismissive approach highlights the more general issue of whether the US will accept any agreements from the Chinese side without establishing its own mechanisms for determining whether they are being carried out. As Lighthizer has emphasised on numerous occasions, "enforcement" is a key question.

For Beijing any mechanism that allows the US to directly intervene in monitoring, enforcing or determining the level of state subsidies would be an intolerable infringement on its national sovereignty.

In addition, according to a source "familiar with the Chinese position," cited by the *South China Morning Post*, Beijing is concerned that the "US would use the verification mechanism to make additional demands on the technology front."

Chinese officials have emphasised that they are prepared to reach an agreement to reduce the trade deficit and have made commitments to increase purchases of US goods. But they are well aware that the fundamental US objective is to try to block China's industrial and technological development.

The US regards Beijing's Made in China 2025 program as a direct threat to its economic and ultimately military supremacy.

During the course of negotiations, the *Wall Street Journal* (WSJ) reported that China's top planning agency was proposing to increase US semi-conductor sales to China to a total of over $200 billion over the next six years, or five times the current level in order to address the trade deficit.

However, in comments to the WSJ, John Neuffer, chief executive of the Semiconductor Industry Association, dismissed the proposal as a "distraction" and "too clever by half." He described it as an "accounting gimmick designed to help China achieve its Made-in-China 2025 goals."

The underlying US objectives are revealed not only in its positions during the trade talks but in its actions. The US Justice Department has charged Meng Wanzhou, chief financial officer of the Chinese telecom giant Huawei, with breaches of US sanctions against Iran and theft of intellectual property from the US firm T-Mobile.

While the trade negotiations were taking place this week, US Secretary of State Mike Pompeo was lobbying Eastern European countries to exclude Huawei from participation in the establishment of 5G mobile phone networks.

The US has already secured the exclusion of Huawei from countries in the so-called Five Eyes intelligence group—the US, Canada, Australia, the UK and New Zealand—and wants the ban extended to all its allies.

In addition, the Trump administration reportedly has under consideration an executive order that would ban Chinese telecom companies from operating in the US on "national security" grounds. It would give greater authority to the Commerce Department to review purchases of products by companies connected to what are deemed "adversarial" countries.