Despite talk of “progress” in trade negotiations

Deep divisions remain between US and China

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26 February 2019

Financial markets around the world, including in China, lifted yesterday on news that US President Trump had delayed the deadline on the imposition of additional tariffs on $200 billion worth of Chinese goods, and was looking to hold a summit meeting with China’s President Xi Jinping to conclude a final trade deal.

But, as the saying has it, the devil is in the detail, and an examination of what has not been agreed reveals major differences between the two sides.

These centre on US demands that China undertake “structural reforms” to its economy, in the area of technological and industrial development, including an end to alleged forced technology transfers and the theft of intellectual property, as well as a pull-back of state subsidies to major industries regarded as “market distorting.”

The other key contentious issue is how any agreement would be enforced.

In his tweet messages announcing the decision not to impose tariffs by the previous deadline of March 1, Trump said there had been “positive progress” on US demands for “structural” changes, and that the talks with China’s chief negotiator Vice Premier Liu He had been “very productive.”

In a brief statement, the official Chinese news agency Xinhua said the US and China had made “substantial progress” on specific issues, but did not provide any details. In a comment on the discussions, the news agency struck a more cautious note, saying there could be “new uncertainties” in the next stage of negotiations. The talks would be “harder at the final stage” and it called for both sides to meet half way. “But we also need to prepare for the worst-case scenario and take care of our own business in a down-to-earth way.”

This assessment points to the differing positions on the US demand for “structural reforms.” The Chinese side has agreed to stepped-up action on the protection of intellectual property and to ease restrictions on US firms in the provision of financial services.

But, as the *Wall Street Journal* reported, citing “people briefed on the discussions” the Chinese leadership “sees all those measures as aligned with the nation’s own interests” and Beijing has not given much ground on issues it sees as crucial. These include “government subsidies and support to state-owned companies and other policies that underpin the state-led economic model.”

As a Chinese official told the newspaper: “We’re taking steps to reform state-owned enterprises to make them more competitive, just not in the way the US wants us to.”

There are clear divisions on the enforcement mechanisms for any agreement, which the lead American negotiator, US Trade Representative Robert Lighthizer, has insisted are crucial. The US side is pushing for provisions that would allow Washington to reimpose tariffs on Chinese goods if it determined that Beijing had failed to reach certain targets, or to leave the tariffs in place and then gradually remove them, to the extent it deemed China was abiding by the agreement.

The key point in US demands is that the issue of compliance would be decided unilaterally by Washington. China has opposed this, insisting that compliance be determined by a joint evaluation.

The *South China Morning Post* has reported that proposals to establish a joint enforcement task force, decided on two weeks ago, have failed to move forward because of Washington’s insistence that it must be the final arbiter.

The newspaper cited a source saying China was pushing back against the US demand because of "sensitivity about sovereignty."

There is also opposition to a US demand that it be allowed to conduct "checks" on China's trade practices at any time—a demand that another source told the newspaper was "very arrogant."

Wendy Cutler, a former negotiator told the *Post*: "The US wants an extremely strong mechanism where they can judge for themselves whether China lives up to the agreement, but I think China would be hard pressed to agree to that."

Cutler ruled out any prospect of an enforcement mechanism through the WTO, and said there would have to be benchmarks established. But it would be very difficult to make them objective.

Those difficulties were highlighted in a *Wall Street Journal* article, raising the issue of what standards should be used to judge compliance. "If one or two US firms continue to have intellectual-property problems in China, for instance, should that be sufficient? If that isn't sufficient, what is?"

The framework for the US demands was set out in an initial document delivered to Beijing last May, which made clear that the key US objective was not only the cutting of the trade deficit by $200 billion over two years, but the virtual dismantling of the Made in China 2025 plan to advance China's industrial and technological development.

By hailing the "progress" in the talks and raising the prospect of a final deal in a summit meeting with Xi Jinping, Trump has put himself in something of a bind.

On the one hand, having stoked financial markets, after their major fall in December, by talking up the prospect of a deal, he faces major financial turbulence if no agreement is reached and 25 percent tariffs are imposed.

On the other hand, if he reaches an agreement at a summit with Xi Jinping that does not contain significant measures aimed at curbing China's economic advance, he will face opposition from key sections of his own support base within the US.

That opposition was foreshadowed in an email issued by his former senior adviser Steve Bannon on Saturday, before the announcement of the extension of the tariff deadline.

Bannon said binding agreements on the non-trade issues, such as forced technology transfers, could "only occur if you execute the 1 March tariffs—otherwise the pressure comes off the Chinese."

And whether or not Trump secures a deal, in whatever form, the pressure for action against China will increase from other sources, closely connected with the intelligence and military establishment. They have made clear that the issues go far beyond trade, because they regard China as a "strategic competitor" and a threat to US global military and economic dominance.

The pressure for action from these quarters was evidenced on Monday, with the issuing of a letter signed by 11 leading anti-China hawks in the US Senate, both Democrat and Republican, calling for a ban to prevent the Chinese technology giant Huawei from providing solar energy equipment, in line with its exclusion from the US telecommunications market.