

# US-China trade deal reported to be in the making

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Media reports over past few days have suggested that China and the US are close to a deal on trade with the possibility of a signing ceremony at a summit between US President Trump and China's President Xi Jinping within a few weeks.

According to the *Wall Street Journal*, citing "people briefed on the matter on both sides," an agreement is taking shape, although they cautioned that "hurdles" remain and both parties could face opposition at home.

The key issues that remain include: the protection of intellectual property, which the US maintains China either steals or acquires through forced technology transfers; state subsidies provided to major Chinese industries; and the development of an enforcement mechanism if the US considers that any deal has been breached.

The Trump negotiators are insisting, as first announced last May, that the US retain the right to impose tariffs if it considers a deal has been abrogated and China should not impose any retaliatory measures in response. This is a major sticking point in Beijing because such a provision could well be regarded as the 21st century version of the unequal treaties imposed on China by the imperialist powers in the past.

On the issue of state subsidies to key industries, which the US has declared are "market distorting," China has said that it will take steps to ensure that its state-owned enterprises operate in accord with market principles. However, any changes will be made in line with its own economic development needs and not dictated by the US under the threat of trade war.

This is considered as insufficient by anti-China hawks both within the administration and more broadly because China has not detailed the subsidies that exist at the national and local government level and has not indicated which subsidies will be eliminated.

The director of the White House National Economic Council, Larry Kudlow, whose chief role in the trade negotiations is to massage the financial markets with assurances that talks are going well, said last week that

China and the US were on the cusp of an "historic" deal.

"The progress has been terrific," he told the business channel CNBC. China had pledged to reduce subsidies to state-owned firms and it would "de-emphasise" its project to emerge as a leader in high tech development under its "Made in China 2025" plan.

Treasury Secretary Steven Mnuchin offered a more cautious assessment, telling CNBC that "the deal is not yet done but we've made a lot of progress." He denied there were any divisions in the American side. Throughout the negotiations there have been continuing reports that sections of the administration want a deal that would ensure increased Chinese imports of US goods, enabling a declaration of "victory." Others, led by Lighthizer, insist that "structural reforms" to the Chinese economy, not trade as such, are the key issue.

Beijing is also claiming that progress is being made. Zhang Yesui, a spokesman for the National People's Congress (NPC) that opened in Beijing on Monday, told reporters US and Chinese officials "have conducted fruitful and intensive consultations and made important progress on many issues of common concern." He expressed the hope that a "win-win agreement" would result.

Technology forms a key component of the negotiations. US Trade Representative Robert Lighthizer, who leads the American negotiating team, has indicated that issues regarding intellectual property take up nearly 30 pages of a 100-page working document.

The *New York Times* reported yesterday that in effort to assuage the US, China is set to pass a new set of laws responding to concerns over so-called "forced technology transfers" requiring foreign companies firms to hand over their technology to their Chinese partners in joint ventures. Beijing has insisted that technology transfers are not "forced" but are undertaken as part of commercial arrangements by firms to gain greater access to Chinese markets.

The NPC has said it will consider the new draft law on Friday. Congress spokesman Zhang said it would improve

openness of the investment environment and “provide more effective legal protection for the formation of a new, open system.”

Whether that will be enough to satisfy the US is another question. The NYT article said the new law comprised single-sentence pronouncements on complex issues, with no details on how the new rules would be carried out. It cited the chairman of the European Chamber of Commerce in China, Carlo Diego D’Andrea who said: “This is good, but it’s not enough.”

Both sides are under pressure to announce some sort of agreement and claim a victory

In the aftermath of the plunge in US stock markets in December, which experienced their worst fall for that month since 1931, Trump has been pushing his negotiators to reach a deal lest failure lead to considerable market turbulence.

Since January, US markets have been on an upward trend because of the reversal by the Federal Reserve of planned interest rate rises and optimistic statements on a China deal. But that could rapidly go into reverse if no agreement is reached under conditions where US growth is slowing and profit expectations are being written down.

Further pressure is being added because of the impact of the trade war on sections of Trump’s electoral base. Trump has claimed with the imposition of tariffs billions of dollars are flowing into the Treasury and the US is benefiting.

This economic fiction has been exposed by reports from two groups of economists over the weekend. A study authored by economists from the New York Federal Reserve and Princeton and Colombia Universities found that as a result of the Trump tariffs US companies and consumers were suffering a total of \$4 billion in costs every month.

Another study by four economists, including World Bank chief economist Pinelopi, found that the annual losses from the higher cost of imports to the US economy was \$68.8 billion.

The study also gave the lie to Trump’s repeated assertions and those of his supporters that the tariffs were of benefit to American workers and farmers. After factoring in the impact of retaliatory measures, it found: “Workers in very Republican counties bore the brunt of the costs of the trade war, in part because retaliations disproportionately targeted agricultural sectors, and in part because US tariffs raised the cost of inputs used by these counties.”

Trump is no doubt anxious to announce a deal before the thinking of key sections of his electoral base catches up with reality and they recognise that his claims of the economic benefits of his trade war are a total fraud. It is significant that during Lighthizer’s appearance before the US Ways and Means Committee last week there were accounts of the economic distress being caused as a result of the tariff

measures and it was reported that agricultural income was falling sharply.

However, on the other side, Trump is under pressure from anti-China hawks, above all from within extreme right-wing sections of the media, the Democratic Party and the military and intelligence establishment. They insist that the economic war is not primarily about trade but centres on the need to suppress the industrial development of China which is a threat to both the economic and military dominance of the US.

These layers will be quick to attack any agreement which they regard as not meeting their demands as selling out US national interests.

An indication has already been provided. Commenting on the proposals for consultations before the US imposes tariffs under enforcement procedures in any deal, Derek Scissors, a “China expert” at the right-wing American Enterprise Institute, told the *Wall Street Journal*: “The whole process is a fraud.” He said the US should enforce its will by unilaterally imposing tariffs rather than getting involved in consultations.

One-time Trump adviser Steve Bannon ruled out the prospects of an early agreement. “For Trump to get the structural reforms he wants and the country needs could take the rest of 2019 to negotiate,” he said.

On the Chinese side, President Xi Jinping is also under pressure. The Chinese economy is slowing and there are rumblings in ruling circles that his emphasis on state-backed industrial and technological development has provoked a confrontation with the US.

Lighthizer pointed to those forces when he told the Ways and Means Committee there were “reformers” in China with whom the US was seeking to work.

These conflicts and tensions on both sides signify that if any trade deal is announced and signed within coming weeks—and that is far from assured—it will not bring an end to the conflict between the world’s two largest economies.



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