

# US-China trade talks enter final phase

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A Chinese negotiating team led by Vice Premier Liu He will return to Washington next week for what could be make-or-break talks on a trade agreement.

The upcoming talks follow a brief trip to Beijing this week by US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin that failed to come up with any significant advances towards a deal.

One of the main sticking points is agreement on the procedure by which US tariffs imposed on \$250 billion worth of Chinese goods would be lifted if a trade agreement is reached. The Chinese position is that if a deal is done the tariffs should then be removed.

However, the US has insisted that at least some tariffs should remain. They would only start to be removed once it considers that China is complying with any agreement. From the outset, the US has made clear that there will be no agreement without an “enforcement” mechanism. It has also claimed the right to reimpose tariffs, without retaliation by China, if it deems the agreement is being abrogated.

Chinese negotiators have made it clear that any deal in which the US has the unilateral right to impose tariff sanctions is not acceptable. It would be akin to the “unequal treaties” imposed in the 19th and 20th centuries by the imperialist powers. Any enforcement mechanism must operate in both directions.

It appears at this stage that the Trump administration may be prepared to remove the 10 percent tariffs on \$200 billion worth of Chinese goods, but retain the 25 percent tariff on \$50 billion of goods that were its first shot in the trade war. China responded to these tariffs by imposts on \$50 billion worth of goods, mainly agricultural products, that the US is demanding be removed.

This is a key question for the Trump presidency which depends on political support from agricultural regions that have been hit by the Chinese tariffs.

One option that has been explored, according to a

report in the *Wall Street Journal*, is a proportional reduction in tariffs. The argument is that the \$50 billion represents about 10 percent of Chinese goods to the US. As China imports less from the US, it should leave in place tariffs covering 10 percent of its imports. This means China would reduce its tariffs so that they covered \$13 billion worth of goods, rather than \$50 billion.

Another point of contention is the issue of allegations of Chinese cyber theft and intrusion into commercial networks which the US insists must cease. A report in the *Financial Times* suggested the US has softened its initial position and that the Trump administration, anxious to secure a deal, is “likely to accept a watered-down commitment from Beijing as an alternative.”

Beijing maintains the accusations of state-sponsored cyber theft are baseless. It says that it has complied with an agreement reached with the Obama administration that neither government would “engage in or knowingly support” the theft of online intellectual property.

If the Trump administration does accept a verbal commitment from Beijing, this is likely to be opposed by key sections of the military-intelligence establishment, as well as anti-China hawks in both the Democratic and Republican parties.

In a speech delivered on April 26, reported by the *Financial Times*, FBI director Christopher Wray said: “No country poses a broader, more severe intelligence collection threat than China. China has pioneered a societal approach to stealing innovation. ... We have economic espionage investigations that almost invariably lead back to China in all 56 [FBI] field offices, spanning almost every industry.”

The issue of intellectual property forms part of US demands for sweeping “structural reforms” in the Chinese economy, including an end to the state

subsidies to key industries under the “Made in China 2025” program.

Reporting on the discussions, the *Wall Street Journal* said the “likelihood of China giving much ground on the contentious issue of subsidies to its state-owned enterprises is diminishing.” This is because it sees “government support as vital to helping Chinese firms move up the value chain and become leaders in next-generation manufacturing, artificial intelligence and other fields.”

The article cited “people close to the talks” as saying Beijing would likely pledge to ensure that companies compete fairly, but not commit to provide the details of state subsidies being demanded by the US.

It is now five months since Trump and President Xi Jinping agreed to negotiations on a trade deal, initiating a process that has involved countless hours of discussions and the production of thousands of pages of documents. However, this process will not continue indefinitely.

Speaking at a financial conference in Los Angeles on Tuesday, Mick Mulvaney, Trump’s acting chief-of-staff, indicated that the outcome would soon be determined.

“It won’t go on forever,” he said. “At some point in any negotiation you go ‘we’re getting close to getting something done so we’re going to keep going.’ On the other hand, at some point you throw up your hands and say ‘this is never going anywhere.’ You’ll know one way or the other in the next couple of weeks.”

Even if a deal is reached it will not bring about an end to trade conflicts. The *Financial Times* columnist Edward Luce published a comment this week entitled “China, the US and trade in a dog-eat-dog world.” He noted that any deal would trigger a rally in the markets with the spectre of a nosedive in China-US relations averted, but it would “come at the expense of future stability.”

This is because any agreement will be outside the framework of the World Trade Organisation, which has been the key mechanism for settling disputes carried out in a process at arms-length from the countries involved. That would no longer apply.

“The coming deal’s enforcement mechanism will offer Democratic and Republican presidents an irresistible set of punitive tools to use against China. There will be no WTO to keep them honest. Nor will

there be any natural breaks between trade policy and diplomacy. Mr Trump has cited US national security as grounds for tariffs on European and Canadian metal imports. Pretty much any Chinese activity can also be blocked on those grounds.”

He also pointed to the weaponisation of the rule of law as exemplified in Canada’s arrest of Huawei senior executive Meng Wanzhou on a US arrest warrant last year, and the continued detention by China of two Canadian nationals.

“At face value,” Luce concluded, “the looming trade deal will probably look like a victory for Mr Trump. Further reflection reveals how much damage the deal would do to the rules-based order that America created.”



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