

US-China trade negotiations at virtual standstill

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Two weeks after US President Trump and Chinese President Xi Jinping agreed to the resumption of trade talks at a meeting on the sidelines of the G20 summit meeting in Osaka, there is no sign they are any closer to a deal.

Telephone conversations between representatives of the two sides were held last week, but so far there has been no indication of when face-to-face negotiations might take place.

While Beijing continues to maintain it is open to discussions, everything indicates it has all but given up on the prospect of reaching an agreement in the absence of any move by the US to pull back on its demands that led to the breakdown of discussions in May.

These demands centre on Washington's insistence that the 25 percent tariffs it has imposed on \$250 billion worth of Chinese goods remain in place even after reaching an agreement as part of an "enforcement" mechanism. The US is also demanding that the Chinese government, under Washington's direction, write into law measures on the protection of intellectual property rights.

Beijing has rejected both these demands on the grounds they breach the principle of equality and constitute an infringement of Chinese national sovereignty, and thus amount to a 21st century repeat of the unequal treaties imposed on China in the early part of last century.

In addition to these issues, the future of US bans imposed on the Chinese telecom giant Huawei has now become a key question. Following the breakdown of the talks in May, the Commerce Department placed the company on its entity list, meaning that US firms supplying it with components had to obtain a licence to do so.

Huawei's founder and chief executive Ren Zhengfei

has said if the ban goes ahead it will cost the company an estimated \$30 billion over the next two years.

As part of the agreement with Xi on the resumption of negotiations, Trump said the restrictions on Huawei would only cover items that impact on "national security."

Last week Commerce Secretary Wilbur Ross said that in line with the president's directive his department would issue licences "where there is no threat to US national security."

Responding to concerns from major US tech companies over their market share, Ross said that "within those confines we will try to make sure that we don't just transfer revenue from the US to foreign firms."

However, he emphasised that Huawei would remain on the entity list, adding "the scope of the announcement does not change the scope of items requiring licences from the Commerce Department, nor the presumption of denial."

White House economic adviser Larry Kudlow has said the licencing requirements would be relaxed but "only for a limited time period."

US chipmakers and other firms supplying Huawei have no idea what is being covered and what is not. As one industry executive told the *Wall Street Journal*: "They're not defining what is a threat to national security. It's as clear as mud."

The administration recognises that if it pulls back on the Huawei ban as part of any trade deal it will meet with opposition from both the Republican and Democratic parties in Congress.

After Trump's comments at the G20 meeting with Xi, leading Republican anti-China hawk Marco Rubio said if Trump had bargained away restrictions on Huawei "then we will get those restrictions put back on

through legislation” that would pass with a large veto-proof majority.

Senate Democrat leader Charles Schumer has expressed similar views to Rubio, reflecting the position of the military and intelligence establishment that the rise of Huawei, and Chinese technological development more broadly, is a threat to US “national security.”

There are clear indications that attitudes are hardening in Beijing. Following the Osaka discussions, Trump, in seeking to curry electoral support and to boost financial markets, said China had agreed to buy “tremendous” amounts of US agricultural products.

Figures from the agriculture department show that in the week after the talks, China slowed its purchases. It reduced its purchases of soybeans by 79 percent from the previous week and bought only 76 tons of American pork as compared to 10,400 tons in June.

At his regular press briefing last Thursday, China’s Ministry of Commerce spokesman Gao Feng said only that agricultural trade was “an important issue that the two sides need to talk about” and would not confirm whether China had agreed to lift its purchases.

Beijing’s position is that Chinese agricultural purchases can be increased, but only as part of a broad agreement in which the US lifts previously imposed tariffs. Gao stuck to the official line in his press briefing saying that trade negotiations would restart “on a basis of equality and mutual respect.”

The Chinese position was underscored in a tweet from Hu Xijin, the editor-in-chief of the state-owned *Global Times*, who said the achievement of the Osaka summit was a US-China consensus, “not a unilateral commitment China made to the US.” He said he hoped the US would “lift all sanctions on Huawei soon and respect the principle of equality.”

But for Beijing “mutual equality and respect” means the US must pull back, at least to some extent, from its demand that Washington has the right to keep tariffs in place and only begin to remove them at a time of its choosing. There is absolutely no indication of any movement by the US in that direction.

In another sign of increased tensions, China has announced that it will sanction US firms that take part in arms sales to Taiwan. In June the US announced plans for sales of \$2.2 billion worth of arms to Taiwan including tanks, missiles and other military equipment.

The announcement drew opposition from Beijing which said the sales “harmed China’s sovereignty” and that bans were being imposed to safeguard its national security.

The bans, which were timed to coincide with the stopover visit by the Taiwanese president to the US, will have limited impact on the US firms involved, but they have a political significance, as the arms sales are considered to be a breach of the “One China” policy under which the US has formal diplomatic ties with Beijing rather than Taiwan. Chinese Foreign Minister Wang Yi warned that the US should not “play with fire” on the Taiwan question.



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