

US-China trade dispute

US heaps pressure on China as trade talks resume in Washington

Vice-premier Liu He will have little room for manoeuvre as US unveils Huawei charges



Liu He is attending the trade talks in Washington this week © Bloomberg

James Politi in Washington and Tom Mitchell and Xinning Liu in Beijing JANUARY 28, 2019

Donald Trump, US president, will meet with Liu He, China vice-premier, at the end of high-level trade talks this week in an attempt to raise pressure on Beijing to make big concessions on structural economic reforms that could pave the way for a deal to end the tariff war.

Steven Mnuchin, the US Treasury secretary, revealed plans for Mr Trump's encounter with Mr Liu on Monday, just before the US Department of Justice [unveiled criminal charges](#) against Huawei, the Chinese telecommunications company, potentially throwing a wrench into the talks. Mr Mnuchin had told reporters there had been "significant movement" in the negotiations but that "very complicated issues" remained.

The discussions in Washington on Wednesday and Thursday represent the first face-to-face cabinet-level discussions with China since a steak dinner at the G20 summit in Buenos Aires in December, when Mr Trump and Chinese president Xi Jinping struck a three-month long ceasefire in their trade war. If no deal is reached by March 2, tariffs on \$200bn of Chinese imports are set to increase from 10 per cent to 25 per cent, which could rattle financial markets and exacerbate fears of a global economic slowdown.

Hopes that a deal could be in the works were stoked earlier this month when a US delegation led by Jeff Gerrish, deputy US trade representative, travelled to Beijing and made some progress towards

securing higher purchases of US goods from China, in an attempt to [narrow the trade gap](#) between the countries.

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Samm Sacks, New America Foundation

complicating the negotiations.

The Huawei indictment poses a new obstacle to substantial progress. “I don't buy the argument that we should separate law enforcement actions against Huawei from the trade negotiations. It's inherently political and will be perceived as such in Beijing,” said Samm Sacks, a cyber security and China digital economy fellow at the New America Foundation, a think-tank.

When he meets Mr Mnuchin and Robert Lighthizer, the US trade representative, Mr Liu may well present a new Chinese offer, but there are fears that it will fall short of US demands. Executives briefed on the talks said the onus was on the Chinese to propose something concrete that could satisfy US concerns.

Beijing officials deny the technology-transfer allegation and see Washington's demands over China's state-owned enterprises and industrial policy as insults to its sovereignty.

“It's very hard to satisfy US demands that we solve problems that do not exist, like ‘forced’ technology transfers,” said Lu Xiang, an American specialist at the Chinese Academy of Social Sciences. “SOEs have been the pillar of China's economy since [reform and opening](#) began [in 1978]. It's hard for China to change that.”

Chinese officials are also irritated by Mr Lighthizer's insistence that they agree to periodic reviews to ensure implementation of any concessions they might make in a final trade deal.

“China is not likely to agree to an enforcement review system as requested by the US,” said Shi Yinhong, a foreign relations professor and government adviser at Beijing's Renmin University. “Liu He's negotiations will be even harder than we expected.”

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But those talks failed to yield any big advances on Washington's demands for “structural” economic reforms to end the vulnerability of US companies to the forced transfer of technology to China, the use of industrial subsidies, or other forms of discrimination against foreign companies — all points of disagreement that lie at the heart of the trade dispute between the countries.

Moreover, the US wants a mechanism to verify and enforce any pledges made by China, further

Eswar Prasad, a former head of the International Monetary Fund's China division who now teaches at Cornell University in New York, said Mr Liu was most likely to “package previous commitments and planned reforms” while hoping Mr Trump would ultimately be mollified by large Chinese purchases of US agricultural and energy commodities.

Even though expectations of substantial progress this week have dimmed, the two countries may strive to avoid a perception that there is a complete impasse, which could spook financial markets and worsen the outlook for the global economy. This means they could emerge claiming that they have at least agreed on some of the low-hanging fruit in the negotiations. “We doubt Liu He would be coming to Washington if he didn't think progress was possible,” said Victoria Ruan, a China policy researcher at McLarty Associates in Washington.

But Mr Liu's room for manoeuvre in Washington this week will also be constrained by hardening attitudes in Beijing, especially as the Trump administration ramps up pressure on [Huawei](#).

On Monday, US prosecutors also filed criminal charges against Meng Wanzhou, the telecoms group's chief financial officer, who was arrested in Canada in December on a US extradition request, which risks inflaming the talks before they begin.

With China's economy growing at its slowest annual rate in almost three decades, Chinese officials do not want the trade talks derailed by the Huawei dispute. But their exasperation with what they see as US hypocrisy and hegemonism, previously expressed only in private, has already begun to filter through in public remarks.

Over recent days China's [ambassador to the EU](#) accused the US of “fabricating a security story about Huawei”, while Beijing's foreign minister denounced the pressure as “unfair and immoral”.

Meanwhile, Mr Trump has been facing pressure from China hawks inside and outside his administration not to cave to Beijing and agree to a limited deal that could expose him to criticism from Democrats that he settled for a weak agreement. That line of attack on Mr Trump could be particularly biting for the president, since he is already facing criticism from his conservative base for blinking in the stand-off with congressional Democrats over the government shutdown and the building of the border wall with Mexico.

“There are indicators that things are coming together but I would be very sceptical that we are close to the finish line,” said Craig Allen, president of the US-China Business Council in Washington.

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