

Trade disputes

Gulf between US and China looms large ahead of G20 meeting

Positions on both sides seem to be hardening as Beijing refuses structural reform



The gulf between Donald Trump and Xi Jinping remains significant © AFP

Tom Mitchell and Sherry Fei Ju in Beijing NOVEMBER 28, 2018

Three months ago, Chinese officials saw the meeting between Xi Jinping and Donald Trump at the G20 as their best hope for a settlement that would end Beijing's [trade war](#) with Washington. Then they hoped for a truce. Now they will consider themselves lucky if this week's encounter passes without any embarrassment for Mr Xi, as they brace themselves for a new round of US tariffs early next year.

As the leaders of the world's two largest economies prepare to meet for the first time in more than a year — on the sidelines of Friday's G20 summit in Buenos Aires — the gulf between the two sides remains large.

According to people briefed on the talks, Beijing's position has not fundamentally changed since May, when Mr Trump contradicted an assertion by China's lead negotiator that the two sides had agreed not to proceed with tariffs.

At the time vice-premier [Liu He](#) indicated that the Chinese government was willing to buy more US agricultural commodities and continue to lift foreign investment caps in selected industries. But Mr Liu, who is also Mr Xi's most trusted economic adviser, would not commit to structural changes to China's unique model of "state capitalism" in which state-owned enterprises dominate sectors deemed "strategic" and tap easy credit from state banks.

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Person briefed on the talks

“China held off giving the US anything for months and then sent essentially the same warmed-over proposal that they had sent six months ago,” one of the people said of the negotiations, which only began again in earnest this month. “The G20 has never been an action-forcing event. We’re just not in a place where the Chinese are willing to do that much.”

He added: “Xi doesn’t want to appear weak. There’s not much that he can give or wants to give. Both sides are just trying to get through this process and be done with it so that maybe next year things can happen.”

In the absence of any big concessions ahead of the G20 or during the presidents’ “working dinner” on Saturday, Mr Trump has threatened to more than double the 10 per cent tariff rate imposed on about half of [China’s exports](#) to the US.

On Tuesday Mr Trump’s chief economic adviser, [Larry Kudlow](#), said he and other administration officials “don’t see” any indications that Mr Xi’s administration was prepared to make an offer that the US could accept.

For Chinese officials and analysts, Mr Trump’s demands are simply too high. “At the G20, China will oppose trade protectionism and reaffirm its willingness to deepen and expand [domestic] reform,” said Shi Yinhong, who heads an American studies centre at Renmin University in Beijing.

“But Trump doesn’t want to hear these things,” added Prof Shi. “He needs unprecedented concessions that are very specific and enforceable. At their core, these concessions [would force] China to change large parts of its economic model and industrial policies.”

On Tuesday, Cui Tiankai, Beijing’s ambassador to the US, urged the Trump administration to “act in a responsible way.”

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“We believe that the key to a negotiated solution to the trade issues is a balanced approach to the concerns of both sides and honestly so far I have not seen sufficient response from the US side to our concerns,” Mr Cui told Reuters in an interview in Washington. “We cannot accept that one side would put forward a number of demands and the other side just has to satisfy all these things.”

Eswar Prasad, a former head of the International Monetary Fund’s China division, said the friction that was evident between Mr Xi and vice-president Mike Pence at the [Asia Pacific Economic](#)

Conference this month suggested that positions on both sides were hardening.

Each side blamed the other for this year's dramatic deterioration in bilateral relations as APEC broke up without agreeing to a common communique for the first time in its history.

"The most likely outcome of the G20 meeting is some partially soothing words from both sides but I think you will eventually see higher and broader tariffs from the US," Mr Prasad said. "There is not an easy path to even a cessation of hostilities at this stage, let alone a reversal of those hostilities."

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Eswar Prasad

The US and China had discussed a possible visit to Washington by Mr Liu ahead of the G20 to pave the way for a possible agreement. The vice-premier instead made an official visit to Germany that wrapped up only on Wednesday. While he was there, China Banking and Insurance Regulatory Commission awarded a German insurer, Allianz, its first-ever approval to open a wholly foreign-owned insurance company.

Chinese officials saw the approval as a symbol of their commitment to financial sector liberalisation. To US executives, it reinforced the glacial pace and ad hoc nature of China's economic reform programme.

Against this inauspicious build-up to Mr Trump and Mr Xi's long anticipated G20 meeting, analysts say the best hope for a breakthrough lies in the US president's penchant for surprises. As Mr Prasad says: "The wild card is who knows what might happen when Trump gets into the room with Xi. Who knows what will be going through his mind?"

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