

U.S. Wrangles China for Firm Commitments as Trade Talks Continue

By **Ana Swanson and Alan Rappeport**

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WASHINGTON — As President Trump dangles the possibility of extending a March deadline to reach a trade deal with China, his advisers are trying to secure firm commitments from Beijing to purchase more American products, prevent currency manipulation and end its practice of forcing American companies to hand over valuable technology.

Negotiators from both countries, who are meeting in Washington over the next two days, are expected to trade memos and haggle over phrasing as they try to make progress toward a deal. But American officials are increasingly focused on ensuring that China, which has often reneged on promises to past administrations, actually adheres to any agreement.

Whether a substantive deal can be reached in the coming days remains unclear. So far, the Chinese have largely reiterated promises to allow foreign car companies and banks freer access to the Chinese market and to increase purchases of American goods, including soybeans and semiconductors.

In recent meetings, the Chinese made only vague commitments on structural issues, including protecting intellectual property and paring back heavy subsidies to state-owned enterprises, said William Reinsch, a former United States trade official and now a senior adviser at the Center for Strategic and International Studies.

“The Chinese have not yet put forward anything close to what we’re asking on the so-called structural issues,” Mr. Reinsch said. “There are differences of opinion on whether they will.”

Complicating matters is Mr. Trump, who in recent days has appeared to undercut his advisers by saying that talks might outlast a March deadline that the president himself set in an effort to pressure China to cut a deal.

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“I can’t tell you exactly the timing,” Mr. Trump said on Tuesday, adding that the deadline he had set of midnight on March 1 “is not a magical date. A lot of things can happen.”

On Thursday morning, Robert Lighthizer, the United States trade representative, flanked by Treasury Secretary Steven Mnuchin, Commerce Secretary Wilbur Ross and the economic advisers Larry Kudlow and Peter Navarro, met with Liu He, China’s vice premier, and a team of Chinese advisers in the executive office building next to the White House. The meeting kicked off two days of top-level talks in which Mr. Lighthizer, a longtime China critic, hopes to secure promises from Beijing to make lasting structural changes to its economy.

Mr. Trump plans to meet with Mr. Liu, the top trade adviser to President Xi Jinping of China, in the Oval Office on Friday afternoon. It will be the second such meeting between the two men in a matter of weeks.

Much of the recent discussion has centered on deadlines and enforcement mechanisms to ensure that China keeps any promises for economic reforms. Mr. Lighthizer, Mr. Navarro and other trade advisers have often called out China for

Mr. Pillsbury said that despite Mr. Trump's hints about extending the deadline, they are expecting he will follow through on his "tariff man" instincts and raise levies on \$200 billion worth of Chinese goods on March 2. He said he believes that China has prepared a package of structural concessions to offer the United States after those tariffs are increased in an effort to get all the tariffs rolled back.

The administration has been searching for concrete, commercially based criteria for performance outcomes — not just superficial legal changes that leave no impact on the ground. For example, even though China has changed laws to allow foreign companies greater access to its markets, a variety of regulatory barriers and licensing requirements continue to prevent foreign companies from operating freely, said Scott Kennedy, a China scholar at the Center for Strategic and International Studies.

"Even if they could agree to some sort of standards on structural reforms, having them come to agreement on what enforcement would look like, that's even further of a stretch," Mr. Kennedy said of the talks.

Both countries have also floated measures that could undermine years of efforts aimed at making China's economy more market oriented. The offers include large state-directed purchases of technological goods, natural gas and soybeans, as well as closer management of China's currency. Those measures would violate Chinese promises to the World Trade Organization and the International Monetary Fund.

But that may matter little to Mr. Trump, who has been largely focused on narrowing the trade gap between the two countries by getting China to buy more American products. The United States' trade deficit with China is likely to increase in 2019, said Derek Scissors, a resident scholar at the American Enterprise Institute, increasing pressure on Mr. Trump to reach a deal that involves more American products flowing East.

“It’s coming from, how do we close the bilateral goods deficit really fast,” Mr. Scissors said. “We need large, quick purchases from the Chinese so the president isn’t ripped to pieces for violating the metric he ran on in 2016.”

China’s recent offers have included buying \$200 billion of American semiconductors over the next six years, in addition to purchases of soybeans and natural gas. The eye-popping figure would help to reduce the \$382 billion trade deficit in goods that the United States ran up with China last year, a metric that Mr. Trump often sees as evidence of a failed economic relationship.

In return for buying more American products, the Chinese have asked Mr. Trump not to follow through on his threat to increase tariffs to 25 percent from 10 percent — and to hopefully remove the tariffs entirely. They have also pushed the United States to remove restrictions on exports of high-tech products to China as well as constraints on Chinese investments in the United States.

Many analysts caution that China’s offer to buy large quantities of semiconductors is largely unrealistic, and would encourage the Chinese state to interfere in its economy to accomplish political goals, a practice past American administrations have tried to discourage.

And it would also deliver further economic benefit to China in the long run. In order to increase the dollar value of shipments to China, the Chinese proposal would have American semiconductor companies move finishing and testing facilities from third countries like Vietnam and Malaysia into China, inflating the value of shipments directly from the United States to China while bolstering Chinese industry.

John Neuffer, the president and chief executive of the Semiconductor Industry Association, said the offer raised numerous questions and threatened to sidetrack negotiations away from more important discussions surrounding China’s infringement on intellectual property and state subsidies.

“The numbers simply don’t add up,” Mr. Neuffer said, “and we are concerned the offer would do little more than rearrange U.S. supply chains and artificially drive them deeper into China.”

Mr. Trump’s advisers have also pressed China to refrain from further devaluing its currency to lift its economy as American tariffs bite. A drop in the value of the Chinese currency in the past year has already neutralized much of the economic effect of the 10 percent tariffs that Mr. Trump placed on roughly \$200 billion of Chinese exports to the United States, said Eswar Prasad, a professor of international trade at Cornell University.

Yet requiring China to manage its currency and keep it above a certain level would be a striking shift from the policy of past administrations, which have tried to encourage China to let the value of its currency rise and fall with market forces.

“It’s a very odd way to approach this,” Mr. Prasad said, “to tell China, after having told them for all these years, ‘Let your currency be determined by market forces,’ to say, ‘Let your currency be determined by market forces only if it is appreciating.’”

The final terms of the deal are likely to be worked out in a meeting or phone call between Mr. Xi and Mr. Trump himself. If so, Mr. Lighthizer’s job this week will be to narrow the suite of disagreements down to just a handful of remaining issues for the president to negotiate.

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