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Trump's Shutdown Surrender Adds Pressure to Secure China Trade Win

By **Alan Rappeport**

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WASHINGTON — President Trump this week will turn his attention from a fight with congressional Democrats to an even more formidable negotiating challenge, one with potentially higher stakes: China.

Trade talks with Beijing begin on Wednesday in Washington, kicking off a monthlong sprint of negotiations between the two nations that could prove more difficult than Mr. Trump's unsuccessful attempt to secure money from Congress for a border wall.

The negotiations come at a critical moment for Mr. Trump's economic agenda and the global economy, which is beginning to slow in part because of the president's trade policies.

This week, a Chinese delegation led by Liu He, the vice premier, will meet with an American delegation led by Robert Lighthizer, Mr. Trump's top trade negotiator, and Steven Mnuchin, the Treasury secretary. A White House official said on Monday that Mr. Liu will meet personally with Mr. Trump on Thursday.

If the two sides cannot reach a trade agreement by March 2, the United States has said it plans to escalate the trade war and raise tariffs on \$200 billion of Chinese imports. China has indicated it will similarly retaliate, making the talks beginning this week critical to resolving the standoff.

Mr. Mnuchin said that there has been "significant movement" in the talks but cautioned that the two countries are still working through "very complicated issues."

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The Treasury secretary added that securing intellectual property protection for American companies, ending regulations that require joint ventures with Chinese firms, and including measures to enforce the agreement would be crucial to completing a deal.

"We expect when we get a deal, that deal will be enforced," Mr. Mnuchin said, adding that he believed China understands that.

Trump administration officials have pointed to recent signs of economic weakness in China, caused in part by tariffs imposed by the United States, as a reason Beijing should urgently seek a deal with the United States. The 35-day government shutdown, however, has drained some of the president's political capital, potentially weakening Mr. Trump's leverage during the homestretch of the talks. On Monday, the Congressional Budget Office estimated that the shutdown cost the economy \$11 billion, with \$3 billion of that lost permanently.

“The length and political dynamics of the shutdown have highlighted the unpredictability and intransigence of the Trump administration on economic issues, which could paradoxically end up working to the U.S. advantage,” said Eswar Prasad, the former head of the International Monetary Fund's China division. **“Of course, the damaging economic effects of the shutdown and Trump's desire to score a cleaner win at least on trade could also make U.S. negotiators somewhat more flexible and willing to strike a deal.”**

The administration continues to insist it has the upper hand, with Mr. Trump reiterating in a tweet last week that he is ready to raise tariffs and urging China to “stop playing around.”



Any sign of optimism in a potential China-U.S. deal has sent markets higher. But on Monday stocks slumped as large manufacturers said exposure to China was hurting their profits. Drew Angerer/Getty Images

But the Chinese may be emboldened by the fact that the president's reputation as a deal-maker suffered in the wake of failing to secure a win on the border wall.

“The Chinese may see the president’s retreat as a sign of weakness and have them harden their resolve not to make major concessions,” said Scott Kennedy, a China expert at the Center for Strategic and International Studies.

Pressure on the United States is also increasing from the corporate sector, as big American manufacturers with exposure to China start taking a financial hit. Caterpillar on Monday said its profit for 2019 would be lower than expected as sales of heavy machinery to China slow and costs for materials rise, in part because of tariffs on foreign steel and aluminum. Nvidia, a big chip maker, cut its fourth-quarter revenue estimates, in part because of weak demand for its gaming chips in China.

“Deteriorating macroeconomic conditions, particularly in China, impacted consumer demand,” Nvidia said in a news release. Shares of both companies fell, dragging down equity markets in the United States.

Larry Kudlow, the director of the National Economic Council, dismissed the suggestion that the United States has been pushing China too hard to make changes, and that it risked blowback if its economy sours.

“What’s at stake here I think is the possibility of spreading prosperity, frankly, in both countries,” Mr. Kudlow said at a White House briefing.

Markets have been fixated on the status of the talks, with any inkling of optimism sending global stocks higher. Advisers to Mr. Trump, fearful that he could strike a quick deal to give stocks a lift, have cautioned him against focusing too much on daily market swings.

The prospect of an unresolved trade war between the world’s two largest economies has dampened business confidence. A survey released on Monday by the National Association for Business Economics found that 36 percent of manufacturers in the United States have raised prices because of Mr. Trump’s trade policies and 27 percent have delayed investments. Business groups such as the U.S. Chamber of Commerce have urged the administration to take a less confrontational approach to China.

With the deadline quickly approaching, Trump administration officials have been downplaying expectations about a potential deal being reached soon. Wilbur Ross, the Commerce secretary, said last week that the United States and China were “miles and miles” apart and Mr. Kudlow has suggested that details of a deal were not set in stone ahead of the discussions this week.

Congressional aides who have been briefed by the administration on the status of the talks said China has agreed to make large purchases of American products to reduce the trade deficit, which is one of Mr. Trump’s key goals. China’s commitment to addressing other concerns, such as forced technology transfer, protections for American intellectual property and reducing its subsidies of state-owned-enterprises, remains uncertain.

The Trump administration has also made little progress when it comes to devising a way to ensure that China lives up to whatever commitments it makes in a final agreement. There is widespread concern among trade experts that China could be slow-walking the negotiations and that it will offer repackaged promises that it has failed to deliver on in the past. To prevent that, officials have been considering “snap-back” tariffs that could be quickly imposed, or “carousel” tariffs that would hit different swaths of Chinese goods if Beijing fails to follow through.

Christopher Adams, who until last year was the senior coordinator for China affairs at the Treasury Department, said it is not hard to imagine Mr. Trump settling for a smaller preliminary deal and extending the March deadline to continue talks on bigger issues. Mr. Adams suggested the administration could also conclude that it must rely on its own tools, such as export controls and the Committee on Foreign Investment in the United States, the body that can investigate and block foreign transactions on national security concerns, if China proves unwilling to undertake meaningful reforms. That would likely mean that the tariffs Mr. Trump has imposed will stay in place for a while.

“I think the ball is in China’s court,” Mr. Adams said. “It really comes down to whether Liu He brings something from President Xi and whether that something gets us close.”

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