

Politics

Trump Team's Trade Mission to China Lays Bare Yawning Divide

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- ▶ U.S., Beijing agree on little more than to keep talking
 - ▶ Deal not seen as imminent as two powers dig in with demands
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President Donald Trump's top economic advisers have returned home from Beijing with little more than glaring proof of how far apart the U.S. and China stand on trade issues.

A U.S. delegation led by Treasury Secretary Steven Mnuchin wrapped up two days of negotiations with Chinese economic officials on Friday with only an agreement to keep talking. No time or place for further discussions was announced, and Trump's threat to impose tariffs on as much as \$150 billion in Chinese goods is still looming.



Steven Mnuchin *Photographer: Patrick T. Fallon/Bloomberg*

The two sides appear to be at loggerheads, with both making long lists of demands <https://www.bloomberg.com/news/articles/2018-05-04/here-s-what-u-s-demanded-of-china-at-the-start-of-trade-talks> the other won't meet, analysts say. Trump wants China to cut its annual trade surplus with the U.S. by at least \$200 billion by the end of 2020 and not retaliate for U.S. tariffs. China wants the U.S. to stop an investigation into the country's acquisition of sensitive American technologies.

"The meetings this week are unlikely to lead to more than a very temporary cessation of hostilities," said Eswar Prasad, a China expert at Cornell University. "We're going to see the trade tensions if anything flare up even more because it has become clear that the U.S. wants a great deal from China and expects China to capitulate, and the Chinese are up for negotiation, not capitulation."

'Very Spoiled'

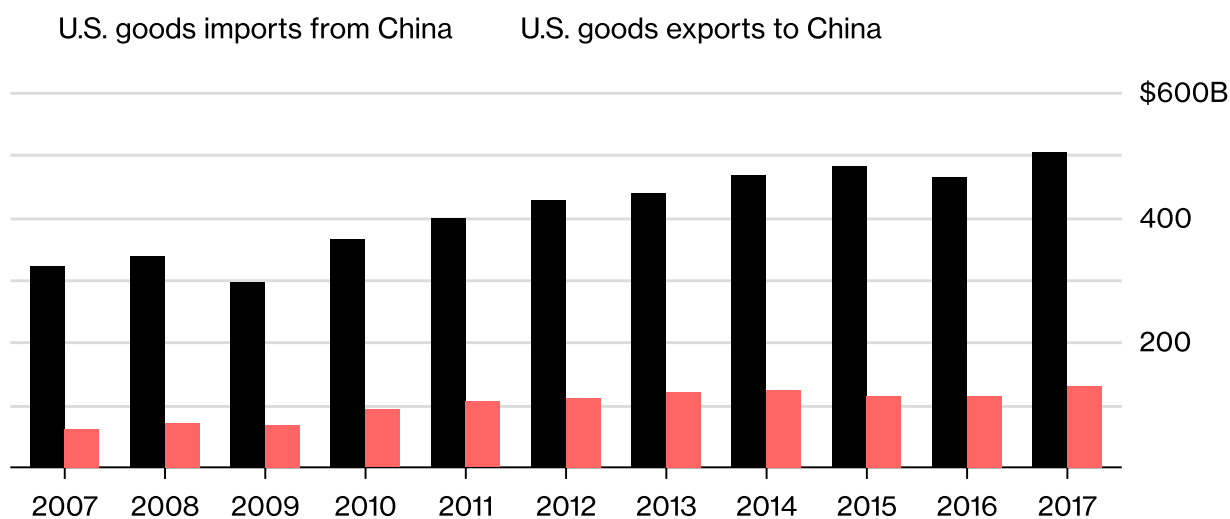
On Twitter Friday night, Trump said that once the delegation has returned, "We will be meeting tomorrow to determine the results, but it is hard for China in that they have become very spoiled with U.S. trade wins!"

Speaking in Cleveland <<https://www.bloomberg.com/politics/articles/2018-05-05/trump-repeats-threat-of-federal-shutdown-to-get-his-border-wall>> on Saturday, Trump said that the U.S. is “going to have to rework trade with China,” adding, “don’t let anyone ever tell you that trade deficits are OK.”

Shortly before he spoke, the White House issued a sharply worded statement <<https://www.bloomberg.com/politics/articles/2018-05-05/white-house-blasts-china-for-its-censorship-of-u-s-airlines>> criticizing China’s government for a recent demand that foreign airlines change the way they refer to Taiwan, calling it “Orwellian nonsense.”

Trump also spoke on Saturday with U.K. Prime Minister Theresa May on “the promotion of fair and reciprocal trade, particularly with regard to China,” according to a readout from the White House.

Advantage China



Source: U.S. Census Bureau

While a cure-all deal was always a long shot, the discord between the world's two biggest economies means skittish global markets will continue to face ongoing trade tensions. The immediate question is whether the U.S. saw enough progress to delay Trump's planned tariffs on Chinese imports. The duties can be imposed after a public comment period ends May 22.

Next Steps

The White House characterized the talks as a "frank" exchange and said the U.S. delegation in Beijing stressed that fairer trade would help boost economic growth, even for China. Trump will "seek his decision on next steps" after a briefing from his advisers when they return to Washington, according to a statement from the White House on Friday.

Earlier Friday, the president hinted his administration would take action.

"My people are coming back right now from China," he said in Washington. "We will be doing something one way or the other with respect to what's happening in China. Let me say this: I have great respect for President Xi, that's why we're being so nice, and we have a great relationship, but we have to bring fairness into trade between the U.S. and China, and we'll do it."

Investors will probably conclude that "it's harder to get a deal than many market participants might have thought a week or a month ago," Kevin Warsh, a former Federal Reserve governor, said on Bloomberg TV on Friday.

Fight Risk

There's a risk of the dispute between the U.S. and China "ending up with a broader fight in the G-20, and that could have real effects on global supply chains, asset prices and the global economy," Warsh said.

Experts had expressed doubts that Trump's team would make a breakthrough, given the differing ideologies within the large U.S. delegation. Mnuchin was joined by Commerce Secretary Wilbur Ross and U.S. Trade Representative Robert Lighthizer, as well as two senior White House officials -- economic adviser Larry Kudlow and trade adviser Peter Navarro -- and the American ambassador to China, Terry Branstad.

"The size and high level of this delegation illustrates the importance that the Trump administration places on securing fair trade and investment terms for American businesses and

workers,” according to the White House statement. “There is consensus within the Administration that immediate attention is needed to bring changes to United States-China trade and investment relationship.”



Liu He *Photographer: Qilai Shen/Bloomberg*

China's Vice Premier Liu He had earlier requested that the Americans designate a single point person for the economic relationship.

Differing Views

Mnuchin's approach is seen as more conciliatory than that of Navarro, who is known as a hawk on Chinese trade policies and co-authored the book "Death by China" about the perilous rise of the Asian economy. Branstad is a former governor of Iowa, where agricultural exports to China are important to the economy.

It was Mnuchin's first visit to China as Treasury chief.

Read more: [Here's What the U.S., China Demanded of Each Other on Trade](https://www.bloomberg.com/news/articles/2018-05-04/here-s-what-u-s-demanded-of-china-at-the-start-of-trade-talks)

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“It’s a continuation of a happenstance strategy around foreign affairs but particularly trade, and I don’t think it’s going to change in the near term,” said Kim Wallace, a managing director at Eurasia Group and a former U.S. Treasury official during the Obama administration.

Chinese Scapegoat

China’s official Xinhua News Agency reported Friday that both sides reached a consensus on some trade issues while acknowledging major disagreements on other matters. It said they would continue discussions, without providing specifics. Neither side briefed the media.

In an editorial, the official China Daily on Friday reiterated that President Xi Jinping’s government won’t back down from its agenda in the face of pressure from the U.S.

“Making China a scapegoat for the ills of the U.S. economy may appease some uninformed voters, but it would hardly reduce the trade deficit,” according to the editorial. “The developments over the past months show China will not compromise on its core interests no matter how desperately the U.S. tries.”

Chinese officials tend to approach changes to economic policy “very incrementally,” said Nathan Sheets, chief economist for PGIM Fixed Income, who served as Treasury undersecretary for international affairs in the Obama administration and until 2017. “It boils down to whether President Xi is willing to use political capital in this way, but this doesn’t seem to be the way he’s moving.”

– *With assistance by Toluse Olorunnipa, Randy Woods, and Michael McKee*

(Updates with Trump comments from sixth paragraph.)

