

China trade

US asks China for \$100bn plan to cut trade deficit

Planes, beans and automobiles in play as Trump tries to increase exports



Balancing act: The Trump administration wants China to cut its trade surplus with the US © AP Lucy Hornby in Beijing and Shawn Donnan in Austin YESTERDAY

The Trump administration wants China to import more cars, aircraft, soybeans and natural gas to meet Washington's aim of cutting the US bilateral trade deficit by \$100bn, according to people familiar with talks between the two countries.

Reducing the trade deficit through higher US exports could ease demands for curbs on Chinese exports to the US — and so help spare goods made by American companies in China from new [US import tariffs](#).

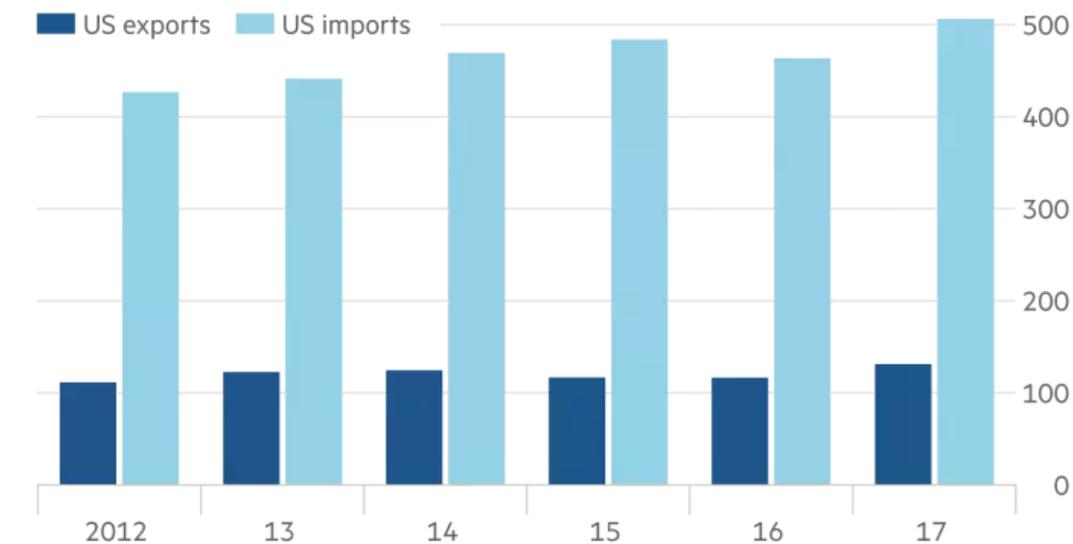
Chinese envoy [Liu He](#) was asked for a written plan to reduce the US deficit during a White House meeting this month with treasury secretary Steven Mnuchin, US trade representative Robert Lighthizer and Gary Cohn, Mr Trump's outgoing chief economic adviser, according to three people briefed on the discussions.

The \$100bn demand would account for more than a quarter of last year's \$375bn deficit in the trade in goods.

The White House set its demand high so that Beijing — which has offered to liberalise financial services and drop some foreign shareholding limits, but has stopped short of specific timelines — would struggle to meet it.

US trade in goods with China

US\$bn



Source: US Department of Commerce

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The Chinese delegation's initial response was that a demand to cut the deficit by fiat was not a market-oriented way of doing business.

The preferred option for reaching the \$100bn target is for the US to increase exports to China sharply, probably by increasing shipments of soyabeans, aircraft, cars and natural gas.

The target could also be reached with sharp cuts in Chinese exports of manufactured goods such as machinery and electrical products, or a combination of both higher US exports and lower imports.

The target is 100 times the size of a deficit reduction goal President Donald Trump referred to last week, when he tweeted that China had been asked for a "One Billion Dollar reduction in their massive Trade Deficit with the US".

"I was thinking, how could it be only \$1bn? Then I heard he got the number wrong," said Li Yong, senior fellow at the China Association of International Trade. Mr Li added that setting a number could help produce a "pragmatic attitude" towards the issue but would not work as a "rigid target".

Chinese and US calculations of the trade gap differ by up to 20 per cent, commerce minister Zhong Shan said on Sunday. "The imbalance is partly due to American export restrictions," he said, referring to high-tech and military-use items that the US blocks for export to China. "If those were relaxed, the deficit would be cut by one-third."

He added: "No one wins from a [trade war](#)."

Mr Trump hinted at the discussions last week during an announcement of new [tariffs](#) on steel and aluminium imports. "We're negotiating, now, with China. I don't know that anything's going to

come of it. They have been very helpful,” he told reporters.

But Beijing and the Trump administration are on different pages, one person with knowledge of the talks said. The White House wants long-term changes in the balance of trade through structural reforms to China’s intellectual property regime and the lifting of tariffs on automobile and other US exports into China.

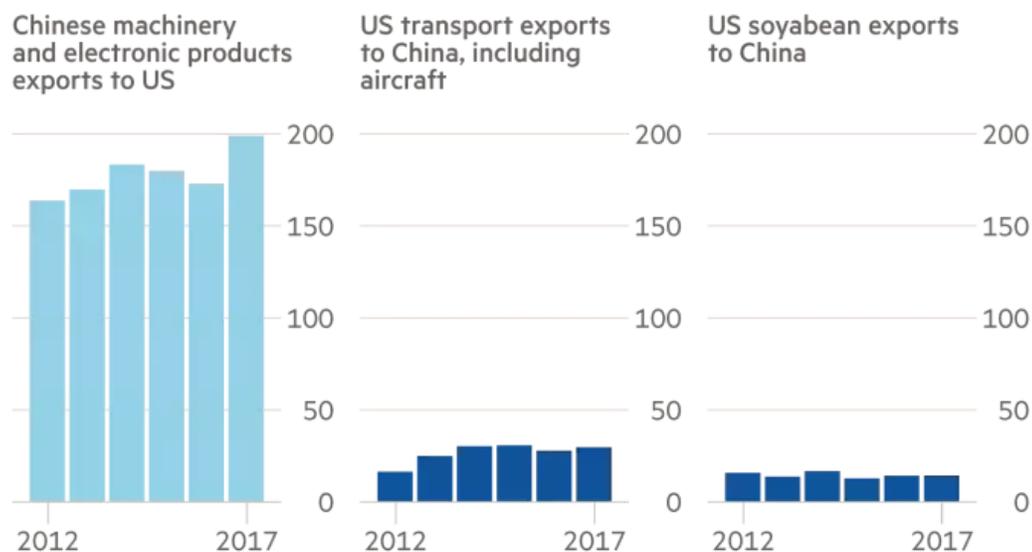
“The two sides are almost talking past each other,” the person said. “Most people are sceptical that at the end of the day the Chinese are going to do something that impacts the priorities of the administration.”

Much of the trade gap reflects manufacturing by US brands in China that takes advantage of the country’s lower wages, looser environmental regulations and increasingly well-integrated supply chain and logistics infrastructure.

More than 50 per cent of the Chinese trade surplus with the US comes from shipments of American-branded goods including Apple products, according to data from the China Chamber of Commerce for Machinery and Electronic Products.

Chinese exports dwarf US exports

US\$bn



Sources: China General Customs Administration; China Ministry of Commerce; Wind Information

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“We have to acknowledge the market effect. There are 500,000 American importers — why are they buying from China?” said Mr Li of the China Association of International Trade. “American companies look for the best price to purchase and therefore maintain their growth and profits.”

Zhang Monan, of the China Center for International Economic Exchange, said recent US tax changes had “a clear effect” on short-term consumption and therefore on American imports from China. “American consumption is up but there has been no change in American exports,” she said.

The Trump administration is preparing tariffs targeted against China, as well as investment and visa restrictions, to pressure Beijing over its intellectual property regime, its use of commercial espionage and its requirement that foreign investors transfer technologies to Chinese partners. Such practices are estimated to have saved China tens of billions of dollars.

Eswar Prasad, a China expert at Cornell University, said Chinese officials told him Washington asked Mr Liu to reduce the US's trade deficit with China by about \$75bn.

He added: "The new tariffs [on steel and aluminium] have strengthened the Trump administration's hand in negotiations with China since the threat of broad and tough US unilateral trade sanctions can no longer be taken lightly."

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