

## US-China trade dispute

### China stops short of accepting US trade demands

Beijing willing to open up to more imports as administration backs away from ZTE resolution



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Shawn Donnan in Washington and Tom Mitchell in Beijing MAY 19, 2018

Chinese officials have indicated their willingness to buy more US exports but stopped short of accepting US President Donald Trump's demand for a \$200bn reduction in their bilateral trade surplus, as the two sides failed to agree on relief measures for a Chinese telecommunications company hit by crippling US sanctions.

In a joint statement released on Saturday the two sides said they had agreed on the need for "effective measures to substantially reduce" the US \$337bn annual trade deficit with [China](#).

They said that after two days of "constructive talks" China had agreed to "significantly increase" its purchases of US goods and services and on the need for "meaningful increases" in US agricultural and energy exports to China.

Beijing had agreed, they said, to amend relevant laws and regulations, including its patent law, to address US intellectual property complaints that have fuelled Mr Trump's recent threats to impose tariffs on up to \$150bn in imports from China. They also pledged to continue engagement to resolve their [differences](#).

Separately, China's top envoy, Liu He, told state media that both sides had agreed not to go ahead with imposing tariffs on each other, the state-run Xinhua news agency reported.

But Saturday's vague statement did not mention telecommunications company ZTE and its lack of firm targets highlighted a continuing gap between both sides' priorities.

The apparent failure came as political reaction forced the Trump administration to back away from a presidential commitment to resolve a dispute over [ZTE](#), which was forced to suspend business operations after being banned from buying US components. Last year ZTE admitted breaking US sanctions on Iran and North Korea in a \$1.2bn settlement that it then allegedly violated, according to the Department of Commerce.

Resolving that issue was the top priority for vice-premier Liu He, China's top economic official, during his visit to Washington this week. Ahead of the trip Mr Trump had tweeted that he and his Chinese counterpart, Xi Jinping, were working to give ZTE "a way to get back into business, fast".

But Mr Trump's tweet provoked a backlash from both Republicans and Democrats in Congress who pointed to US intelligence agencies' longstanding security concerns about ZTE. Politicians across the US political spectrum warned the president on Friday not to cave in to China.

"The president's negotiating space has been shrinking with all the pressure that has been coming out of [Congress]. He lit a fire with that [ZTE] tweet," said one person familiar with this week's talks.

Larry Kudlow, chairman of the National Economic Council, insisted that ZTE would still face stiff penalties from the US and may have to change its board and management. "We're not talking about letting them off scot-free by any stretch," he told Fox Business in an interview.

Mr Kudlow also told reporters on Friday that China had committed to making more than \$200bn in purchases from the US and made other concessions. "China has come to trade," Mr Kudlow told reporters at the White House. "They are meeting many of our demands. There is no deal yet to be sure, and it's probably going to take a while to process, but they're coming to play."

Some in Washington nonetheless greeted news of China's pledge to help increase US exports sceptically.

"Why do US officials always fall for #China trickery?" Republican senator Marco Rubio [tweeted](#). "If we don't wake up & start treating this as a national security issue China is going to win again."

People briefed on the discussions, however, said rather than agree to the deficit reduction target that the US had been seeking, the Chinese delegation would commit only to lowering tariffs and removing other trade barriers with a target of increasing US exports.

One person briefed on the discussions said the Chinese had been working on a package of smaller commitments including lower auto tariffs, which were first announced last month, in an effort to

give Mr Trump a deal that he could present as a victory.

Chris Johnson, a China analyst at the Center for Strategic and International Studies, said some Trump administration officials had also been wary of agreeing to a “mini deal” – trading ZTE relief for Chinese commitments not to target [US agricultural exports](#) – if there was no guarantee of a follow-up agreement addressing their larger concerns about China's foreign investment and industrial development policies. “There was a concern on [the US] side that the ‘mini deal’ becomes the ‘maxi deal’,” he said. “If you take that you might never get around to the structural stuff.”

A commitment by Beijing to import more US goods such as semiconductors would also drive a wedge between Washington and allies such as South Korea and Taiwan, whose chip companies export large volumes to China.

“I think China is winning the trade war,” said Eswar Prasad, a China expert at Cornell University. “You might well end up with China buying more stuff, but that is going to widen the rift between the US and its allies.”

Mr Trump’s earlier readiness to make a major concession on ZTE also would hurt America’s image as a country “governed by the rule of law rather than presidential whims”, he added.

*Additional reporting by Archie Zhang*

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