

US trade

US detente with China postpones trade war but angers hardliners

Response to decision to suspend tariffs illustrates how hard peace will be to achieve



Steven Mnuchin, US Treasury secretary, in Beijing earlier this month © Reuters
Shawn Donnan in Washington and Tom Mitchell in Beijing MAY 20, 2018

A vague agreement by the US and China to continue talking and try to reduce the trade imbalance between the world's two largest economies has put off the launch of a trade war and may eventually result in a broader peace. But it has also provoked an angry response from hardliners on both sides, illustrating how difficult any peace will be to achieve.

Both sides at the weekend agreed to suspend tariffs and continue negotiations over what US Treasury Secretary Steven Mnuchin called a “framework” deal that would see Beijing ramp up its purchase of US goods and services and commit to reducing the US's \$337bn annual trade deficit with China.

Yet in the US that has fuelled fears among China hawks that the Trump administration may be giving up the leverage it created by threatening tariffs on up to \$150bn in Chinese imports earlier this year and sacrificing a broader push for change in China.

“Not good enough. Time to take the gloves off,” Dan DiMicco, a former Nucor Steel CEO and campaign trade adviser to Mr Trump, tweeted on Saturday.

Liu He, Xi Jinping's top economic emissary, returned home over the weekend to a similar sceptical welcome.

Chinese social media users circulated a picture juxtaposing one of Mr Liu's meetings on Capitol Hill with Qing dynasty officials negotiating their surrender after US and European forces crushed the Boxer Rebellion in 1901.

Part of the problem for Beijing is that Mr Liu returned home with the fate of ZTE, the Chinese telecommunications company, still hanging in the balance and a seven-year ban on its sourcing of vital US parts still in place.

According to three people briefed on the negotiations, Mr Liu's top priority ahead of last week's negotiations was securing relief for ZTE and its 70,000 employees, who could lose their jobs if the US Department of Commerce does not allow the company to resume sourcing US components. The seven-year ban was imposed last month after the Shenzhen-based telecommunications company admitted violating the terms of a 2017 \$1.2bn settlement with the US government for violating US sanctions on Iran and North Korea.

Getting in the way of a deal was an angry bipartisan response in Washington to Mr Trump's pledge in a tweet to find a way for ZTE to "get back to business fast". But when [promises](#) from Mr Trump and Commerce Secretary Wilbur Ross to move "fast" on a reprieve for ZTE did not materialise, Mr Liu's room for manoeuvre was constrained.

Moreover, the ZTE dispute is only one of a broader number of issues in the way of an entente.

The US has set a \$200bn deficit reduction target as a benchmark. Yet economists say that will be hard to meet, given that all US merchandise exports to China last year totalled just \$130bn.

The push for what Steven Mnuchin, the US Treasury secretary, described as "industry by industry" targets such as a \$50-60bn increase in energy exports, echoes what some see as failed US trade policies of the past.

"It's déjà vu," said Douglas Irwin, an economic historian at Dartmouth College.

The push by the Trump administration looked a lot like the "managed trade" policies advocated by US presidents with Japan in the 1980s and 1990s, he said. Those did little to change the Japanese trade surplus with the US.

Commitments by China to address US complaints over intellectual property issues also look a lot like promises that Beijing has made in the past to change laws and regulations only to ignore them in practice.

How a deal develops may depend on Mr Trump's own mood. The president's commitment to an upcoming summit with North Korea's Kim Jong Un appears to

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Eswar Prasad

hawks” such as US Trade Representative Robert Lighthizer. But they also have their own demands.

In return for reducing its trade surplus with the US and any reforms to its foreign investment and industrial development policies Beijing wants to see a lifting of [the restrictions](#) on certain high-technology exports to China imposed after the Tiananmen Square massacre in 1989. It also wants guarantees the US will not discriminate against Chinese investors in the US.

“Liu He has to sell any package domestically,” said Eswar Prasad, former head of the International Monetary Fund’s China division. “It can’t just be China giving stuff to the US and not getting anything in return.”

Additional reporting by Xinning Liu

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