

## US-China trade dispute

### China braced for surprises in US trade talks

Vice-premier Liu He to face off against seven US representatives during negotiations



Steven Mnuchin on his way to the Chinese embassy in Washington on Thursday. The US treasury secretary will lead the US delegation that will hold talks with Liu He, China's vice-premier © AFP  
Tom Mitchell in Beijing MAY 2, 2018

Three months ago President Xi Jinping's top economic adviser asked the Trump administration which US official he should talk to as the Chinese government tried to avoid a trade war with its largest trading partner.

Vice-premier Liu He will finally have his answer on Thursday afternoon, when he sits down for two days of trade negotiations with not just one US counterpart, but seven. Last week Donald Trump instructed six administration officials, led by Steven Mnuchin, US Treasury secretary, and Robert Lighthizer, US trade representative, to travel to the Chinese capital, where they will be joined by US ambassador Terry Branstad.

According to people briefed on the talks, the delegation is also expected to meet Mr Xi and vice-president Wang Qishan before returning to Washington on Friday evening, although official Chinese media have only confirmed their meeting with Mr Liu.

When Mr Liu, China's most powerful economic official, visited US policymakers at the White House in early March, the Trump administration announced its intention to impose tariffs on imported steel and aluminium and did not grant him an audience with the president.

For senior Chinese officials and their policy advisers, the arrival of what they see as a large and unwieldy

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Lü Xiang, Chinese Academy of Social Sciences

Chinese exports to the US. The Chinese then closed ranks, saying they would not negotiate in the face of such threats.

“China’s bottom line is that the US will not get anything through blackmail,” said Lü Xiang, an American affairs expert at the Chinese Academy of Social Sciences. “China is waiting to see what [requests] the US will put on the table. But if they pull out a gun and point it at us, then they can finish their tea and leave.”

In [private discussions](#) over recent weeks, Chinese officials have said they were willing to help reduce Beijing’s [\\$375bn](#) goods trade surplus with the US and open more service and industrial sectors to foreign investment, because they think doing so is in China’s own interest.

But they dismiss Mr Trump’s demand to reduce the two countries’ trade gap by \$100bn, issued via Twitter in March, to be both arbitrary and nonsensical. They argue that the deficit stems more from structural factors including poor infrastructure — which makes it harder for US companies to export coal and other commodities at competitive prices — US tax policies and American consumers’ low savings rates.

For Chinese officials and policy advisers, such demands hint at deep US discomfort with China’s rise as an economic and military power. “The US has lost its self-confidence,” said Ruan Zongze at the China Institute of International Studies. “After the second world war, the [size of the] Soviet and Japanese economies peaked at 60 per cent of US GDP. China will go further. The US cannot fix its internal problems and it cannot change China.”

Kishore Mahbubani, a professor at the National University of Singapore who twice served as the city-state’s ambassador to the United Nations, agrees that “it’s very difficult for a number one power to give way to a number two power that also becomes a bigger economy”. But he warns that China may be underestimating how dramatically US political and public opinion is swinging against Beijing’s trade and economic policies.

US delegation is just the latest twist in three months’ of diplomatic exchanges that they have found to be both confusing and insulting. They are also bracing themselves for surprises from Mr Trump, who has previously issued threatening tweets and statements in the midst of delicate Sino-US negotiations.

In April, after the world’s two largest economies threatened to impose punitive tariffs on \$50bn worth of each other’s exports, Mr Trump said he would consider targeting an additional \$100bn worth of

“China has been successful in managing US relations for the past 20 years,” Prof Mahbubani said. “But that creates a presumption in Chinese minds that what they have done over the past 20 years will continue to work. I don’t think it can because the fear of China now is fundamentally different.”

The gulf between the two sides on other issues will also loom large at Thursday’s negotiations, which are not expected to reach a settlement.

While Chinese officials view recent openings of the country’s financial and automotive sectors as significant moves, they have been widely dismissed by US officials and business executives as incremental measures that will lead to little meaningful change for foreign investors.

Beijing also denies US complaints that it forces foreign investors to transfer proprietary technologies or that it subsidises state-owned enterprises. “The best that can be hoped for from this week’s meetings is a de-escalation of tensions and an agreement on the scope of further negotiations,” said Eswar Prasad, a Cornell University professor and former head of the International Monetary Fund’s China division.

## Timeline: US-China tit-for-tat tariff threats



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APRIL 2017

The US launches an investigation into the effects of steel and aluminium imports on economic security, military preparedness and national security.

AUGUST 2017

President Donald Trump asks the US trade representative to examine China’s intellectual property regime and particularly its practice of forcing foreign companies to transfer

technologies to local partners.

MARCH 8 2018

The US [announces](#) 25 per cent import tariffs on steel and 10 per cent import tariffs on aluminium to take effect on March 23.

MARCH 23 2018

The US imposes the tariffs on steel and aluminium. Countries in the EU and several others, but not including China, are exempted until May 1.

MARCH 23 2018

China announces 15-25 per cent tariffs on 128 products, including pork, in response to the steel and aluminium tariffs, to take effect on April 2.

APRIL 2 2018

China imposes the 15-25 per cent tariff on 128 products.

APRIL 3 2018

US publishes a list of 1,333 products worth \$50bn of annual imports that could be subject to new 25 per cent tariffs aimed at China's intellectual property regime.

APRIL 4 2018

China files a [WTO complaint](#) on the \$50bn list of products and threatens to impose a 25 per cent tariff on \$50bn of US imports, including [soybeans](#).

APRIL 6 2018

Angered by the Chinese threat of retaliation, Mr Trump orders the US trade representative to consider [additional tariffs](#) on another \$100bn of Chinese imports.

MAY 1 2018

US extends exemptions on US steel and aluminium tariffs for the EU, Canada, Mexico, Argentina, Australia and Brazil until June 1.

For more information on the looming US-China trade war, see the FT's [full list of items at stake](#).

Sources: WTO, FT research

*Additional reporting by Xinning Liu*

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