

US-China trade dispute

Trade war looms as US and China take hardline stance

US demands seem to seek Beijing 'surrender' rather than truce



Donald and Melania Trump with Xi Jinping and China's first lady, Peng Liyuan, at the Forbidden City in Beijing in November © Reuters Shawn Donnan in Washington MAY 4, 2018

Just days ago the hope was that if Washington and Beijing would just start talking then a trade war between the world's two largest economies could be averted. But this week's discussions in Beijing between the Trump administration and Xi Jinping's economic team have only shown that a trade war may be inevitable.

“These meetings could end up going into the books as a formalisation of hostilities rather than as the basis for a negotiated settlement,” said Eswar Prasad, a US-based China expert with close ties to Chinese economic policymakers.

According to documents laying out the two sides' demands, Beijing and Washington are both taking a hardline approach. Even if a solution is possible it is likely to take months to negotiate.

The Trump administration is insisting that China cut its \$337bn-a-year trade surplus in goods and services with the US by almost two-thirds over the next two years and refrain from retaliation against any US trade actions. However, it also wants to end elements of Mr Xi's 'Made in China 2025' strategy, which aims to establish a world-leading role for Chinese companies in some sectors.

In return, Beijing demands that the US ditch its longstanding objection to treating China as a market economy within the World Trade Organization. This could make it harder to hit back at unfair trade practices.

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Eswar Prasad



administration moves off some of these proposals,” she said. Ms Cutler, now at the Asia Society, pointed to how the US has shifted in its attempted renegotiation of the North American Free Trade Agreement with Canada and Mexico and to the modest tweaks obtained in a bilateral trade agreement with South Korea.

But with China things are very different.

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Wendy Cutler

It has requested that Washington stop US export controls on high-tech products and drop a seven-year ban on ZTE, the Chinese telecoms company, buying US parts.

The only reason for optimism, former US officials and other trade experts said on Friday, was that the Trump administration had established a pattern in other negotiations of laying out extreme demands — only to bend later on.

“It seems to me [the US lists are] more of a wish list than a serious negotiating proposal,” said Wendy Cutler, who helped to lead trade talks in the Obama administration.

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While US business has mostly opposed — and lobbied against — Mr Trump's hardline approach on Nafta, it largely supports his goals on China.

“The position that the Trump administration is taking is rooted in fact and is supported by multiple stakeholders,” said one person close to the US business community. “That's the big difference. ... China is in a wildly different place. It's not analogous to what is happening with Nafta.”

The only real disagreements in the US are over Mr Trump's singular focus on reducing America's trade deficit with China and his threats to impose tariffs that many fear could trigger a trade war.



Most economists and business leaders see the US trade deficit with China as a consequence of macroeconomics as much as the trade relationship. Reducing it will be a long-term project.

Edward Alden, a senior fellow at the Council on Foreign Relations, said the Trump administration's proposal to reduce the deficit with China would require a version of managed trade that would make

many US free marketeers uneasy.

"This will cause some problems even with US supporters of a hard line on China," he said, "because it mixes reasonable demands for China to lower tariff and investment barriers and cut subsidies along with purely managed trade demands" such as reducing the deficit.

"To achieve [the US's \$200bn deficit reduction goal] you are really talking about a ... situation where China has to block exports to the United States, which is going to be hard to do," said Ms Cutler.

Many in the US business community are also anxious that any US tariffs could hit Chinese parts that American manufacturers rely on. "We are deeply concerned that the proposed tariffs list and escalating tariff threats from the administration will not effectively advance our shared goal of changing these harmful Chinese practices," said Tom Donohue of the US Chamber of Commerce this week.

"This should have been fixed years ago, not now," Mr Trump tweeted on Thursday as he dispatched his emissaries to Beijing. "But it will all get done."

In fact, Mr Trump and his team may have overestimated their leverage with China or its capacity to meet US demands, Mr Prasad said. "The US team seems to have had the objective of negotiating a surrender rather than a truce."

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