As Trump touts tariff deal, China pitches itself as global trade leader

As the U.S. and China finalized a trade agreement, Beijing pitched itself at the "Summer Davos" summit as an antidote to global economic "confusion and anxiety."

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By Christian Shepherd

TIANJIN, China — On the same day China and the United States were finalizing a framework to guide negotiations in their bitter tariff dispute, Chinese Premier Li Qiang was making his pitch for Beijing as the solution to global trade volatility unleashed by Washington.

At the opening of an annual confab of foreign officials, business executives and scholars organized by the World Economic Forum here this week, Li likened the "confusion and anxiety" in the global economy to the 2008 global financial crisis and vowed that China was here to help.

"No country can grow and prosper in isolation from the world," Li said Wednesday, as he opened "Summer Davos," as the event is sometimes known. "China is willing to do all it can to help overcome the difficulties and challenges the world economy faces."

Commerce Secretary Howard Lutnick, in a Thursday interview with Bloomberg, said the U.S. and China had signed a trade agreement codifying the terms reached after two rounds of trade talks in Geneva and London in May and June, which would speed up Chinese approvals for rare-earth exports to the United States. On Friday, China's Commerce Ministry said that "details of the framework were recently further confirmed and approved." President Donald Trump earlier on Thursday announced a trade-related deal with China, without providing details.

But since Trump announced — then mostly paused — his "Liberation Day" tariffs around the world, Beijing has been working to build common cause with other aggrieved U.S. trading partners while also negotiating with the U.S. to reach a deal to lower tariffs on Chinese goods.

At the conference, Li also addressed rising global concerns that Beijing will export its domestic economic problems by flooding international markets with cheap, overproduced Chinese goods. China would try to make sure there was demand at home, Li said, pledging that China would become a "mega-sized consumption powerhouse" and do more to share its advanced manufacturing and green energy technologies.

"The [Chinese] government clearly wants to signal that it has domestic and international matters under control and that China is willing to take on the mantle of preserving the global rules-based order," said Eswar Prasad, professor of economics at Cornell University.

Beijing's bid to be a champion of globalization and free trade stretches back at least to the first Trump term, but the lingering uncertainty of Trump's on-again, off-again tariffs has given Beijing a fresh opportunity to present itself as a reliable partner.

China's charm offensive — including seeking common ground with nervous U.S. allies such as Australia, Japan and the European Union — has been helped by a relative uptick in economic performance since last year, when the economy was buffeted by record unemployment, massive local government debt and a prolonged property slump.

So far this year, China is on track to achieve above its target of "around 5 percent" economic growth for the year, thanks in part to a spending spree during the "618 festival," a countrywide discount shopping bonanza in June to celebrate the founding of e-commerce giant JD.com, Morgan Stanley said in a research note Thursday.

China's relatively strong economic performance under U.S. pressure and its message of being a stabilizing force for global trade is "landing well in the Global South," said Diana Choyleva, chief economist at Enodo Economics, a research firm.

But while things look good on the surface, many of China's structural problems remain, Prasad said. The gap between what factories produce and what domestic buyers need remains an "enormous vulnerability" and the risk of a flood of exports is forcing other countries to put up trade barriers against Chinese goods, Prasad said. In recent months, Brazil extended steel tariffs, Thailand increased duties on low-value goods and even Russia, a close partner of Beijing, is taking steps to slow imports of Chinese-made cars.

The reality of Chinese oversupply would make Li's promises difficult to fulfill. Chinese policymakers have been trying to spur consumption since the beginning of Trump's second term, with mixed success. Multiple cash-strapped local governments have recently paused subsidies encouraging people to trade in old household appliances and electronics.

At this year's gathering, Chinese officials and policy advisers sought to soothe fears that Chinese trade dominance would turn imbalances in the Chinese economy into global problems.

Chief among those concerns is the fear that Chinese factories, which produce far more than domestic buyers need, will flood the world with low-cost exports, making it difficult for other economies to build industries of their own.

Excess supply has created unhealthy competition within China, even in industries where Chinese companies are considered global leaders, such as electric vehicles. After leading EV maker BYD set off a round of price cuts recently, Chinese authorities stepped in to order a halt to the bruising price war.

"The biggest challenge for China's economy is not the trade war. It is structural issues that have accumulated for 30 years," said Zongyuan Zoe Liu, a senior fellow at the Council on Foreign Relations.

China's focus on its manufacturing prowess means it is unlikely to become a consumer-driven economy like the United States. And that creates the risk of further deflation, as companies in multiple sectors slash prices to spur sales.

Trading partners in places like Europe fear that "China is basically exporting its deflation to every corner of the world," said a Chinese government adviser who spoke on the condition of anonymity to discuss a sensitive policy matter.

But few countries can afford to spite Beijing when they rely on China for daily products, factory components and critical materials like rare earths, and the uncertainty over Trump's trade policy has left many countries with little choice but to move closer to China, the adviser said.

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Beijing reached an uneasy truce with the Trump administration in talks in Geneva in May, after a month of triple-digit tariffs dramatically slashed trade between the world's two largest economies.

The agreement to halt hostilities nearly fell apart weeks later. While Trump administration officials accused China of holding back critical rare-earth magnets, Beijing said that new restrictions on Chinese-made semiconductors violated the terms of the agreement.

Negotiations resumed last month after Trump and Xi Jinping spoke by phone, resulting in a framework reached in London on how to implement the earlier agreement.

Even if more U.S. deals materialize, trade experts expect they will be only the start of longer negotiations that could take years. The rules that underpin trade relationships are complex and rewriting them typically takes far longer to reach than the 90-day pause given by Trump. The White House has signaled that the July 9 deadline may be extended.

Beijing isn't necessarily in a rush to end its own dispute with Trump. While tariff pressure might hurt Chinese businesses and family livelihoods, it also gives Xi cover to push through difficult reforms and blame economic hardships on the United States.

"This year may be the first time they actually take tactical reform measures to boost household consumption," Liu said. "They know the trade war will bring pain anyway, so now is the time to do it."

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