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POLITICS

Tariffs Take Center Stage in U.S.-China Trade Talks

Trump administration's demand that punitive levies remain to ensure Beijing enacts genuine overhauls has emerged as one of the biggest sticking points as negotiators meet in Washington



Liu He, China's vice premier and director of the central leading group of the Chinese Communist Party, waves to members of the media while arriving at the office of U.S. Trade Representative Robert Lighthizer, center, in Washington, on April 3. PHOTO: ANDREW HARRER/BLOOMBERG NEWS

By Bob Davis

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WASHINGTON—The Trump administration's demand that punitive tariffs remain to ensure Beijing enacts genuine overhauls has emerged as one of the biggest sticking points, as U.S. and Chinese trade negotiators opened new face-to-face talks aimed at a deal.

Delegations met in Washington Wednesday, seeking to craft an agreement President Trump and President Xi Jinping of China could sign. The stakes are high for both sides, as failure to

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China trade envoy Liu He's priority is to persuade his U.S. counterparts to remove tariffs on \$250 billion of Chinese goods immediately on signing a deal, Chinese officials said. In exchange, Beijing is ready to eliminate retaliatory tariffs on \$110 billion of U.S. goods.

In a sign that Mr. Liu may be making progress, Mr. Trump is looking to announce on Thursday the date of a summit with Mr. Xi, said an administration official. That's a big signal the two sides are on the cusp of a deal, trade experts say, and a resolution of the tariff issue. But the official cautioned that the situation is fluid, and plans could change.

Beijing has few other trade demands in the negotiations, aside from opening U.S. services and agricultural markets further to Chinese companies. What is more, U.S. business leaders support China's demand to completely lift tariffs.

"Without tariffs being removed, it's highly unlikely there will be a deal anytime soon between China and the U.S.," said Myron Brilliant, executive vice president of the U.S. Chamber of Commerce, who talks regularly to senior trade officials in both countries.

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But U.S. trade negotiators look at tariffs as a way to make sure China lives up to its commitments in a trade deal. They want to roll levies back slowly. "We have to have real progress" before lifting tariffs, U.S. Trade Representative Robert Lighthizer told the Senate Finance Committee in March.

The tariff impasse overshadows other issues in the talks because it is a linchpin political decision that Messrs. Trump and Xi must approve. Neither leader is showing his hand.

Although Mr. Trump has declared himself "a Tariff Man," he has made conflicting statements

on China levies. On March 20, he said tariffs would remain for "a substantial period of time" after a deal. Two days later, he suggested that may only apply to the first round of U.S. tariffs, which targeted \$50 billion of Chinese imports.

The tariff question will feature prominently in the current round of trade talks—the sixth since a December summit of the two leaders where they agreed to press for a deal.

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technology from U.S. companies to their Chinese counterparts.

The talks are expected to continue for several days, National Economic Council Director Lawrence Kudlow said. Mr. Liu is expected to meet with Mr. Trump in the Oval Office on Thursday, which would be the third such meeting this year. Mr. Liu must win approval of any major concessions from China's senior government and party leaders. Similarly, Mr. Lighthizer must win Mr. Trump's approval.

Over the past month, Beijing has made a number of moves to persuade Mr. Trump's administration to cut a deal. These include revamping China's foreign-investment law so it clearly bars coerced technology transfer, and signaling it may be willing to let cloud-computing companies operate in some parts of China.

China has also declared that all varieties of the opioid fentanyl are controlled substances, as Mr. Trump has requested. Mr. Xi had promised Mr. Trump during the December summit in Buenos Aires that he would do more to close loopholes that allowed Chinese manufacturers to develop varieties of the highly addictive drug.

Beijing has characterized the moves as helping to open up its economy, not making concessions to the U.S.

"They don't want to be seen as caving in," said Eswar Prasad, a China scholar at Cornell University who speaks with senior Chinese economic officials. "They want to be seen as a power on a par [with the] U.S."

The U.S. is pressing Beijing for more significant changes. On cloud computing, for instance, Beijing is considering a "liberalization pilot" program in one of the country's free-trade zones. Foreign providers would be allowed to own data centers there, probably starting in the southern city of Guiyang, which is a center for big data, people familiar with the plan said.

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But U.S. cloud-computing companies complain that isn't sufficient and are urging U.S. negotiators to insist on reciprocal treatment. Chinese cloud-computing companies can operate in the U.S. without hindrance. U.S. cloud providers such as Microsoft

Corp. and Amazon.com Inc. must form joint operations in China and license their technology to a local partner.

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private conversations, but only in broad outlines.

The proposed plan would allow both sides to negotiate over any alleged violations. But if those talks failed to reach agreement, the U.S. could unilaterally impose levies on Chinese goods, and, in some cases, China would agree not to retaliate.

Beijing has publicly trashed the idea. Vice Commerce Minister Wang Shouwen has said any enforcement mechanism must be fair, equal and reciprocal. So far, Chinese negotiators have said, at most, Beijing would contemplate such a provision, people familiar with the talks said.

Stephen Orava, a trade lawyer at King & Spalding, said such a pledge would have little meaning anyway. “At the end of the day, the U.S. and China are sovereign countries that can impose duties whenever they want.”

But the plan could be useful for Mr. Lighthizer in terms of negotiations, people familiar with his thinking said. Should he get Beijing to agree, he would have a powerful argument that a trade deal went far beyond anything negotiated before with China. That would help him persuade Mr. Trump to approve the agreement and lift a substantial amount of tariffs.

Although Mr. Lighthizer shares his boss’ fondness for tariffs, he has sometimes been willing to drop them, only to be overruled by Mr. Trump. That is the case with Mexico and Canada, where Mr. Lighthizer has argued that the U.S. should cancel steel and aluminum tariffs on the two nations as a way to ease passage in Congress of the renegotiated North American Free Trade Agreement, called the U.S.-Mexico-Canada Agreement. So far, Mr. Trump hasn’t budged.

Alternatively, Mr. Lighthizer could use the provision as a bargaining chip with Mr. Liu. The U.S. might drop the no-retaliation demand in exchange for Beijing’s assent to tariffs remaining in place for a longer period. Again, that could appeal to Mr. Trump and win his backing for a deal.

Any agreement is expected to be completed in a meeting between Messrs. Xi and Trump, where the issue of tariffs might come up. But Beijing wants to lock up all the details before such a meeting, fearful that the U.S. president will use the occasion to make a take-it-or-leave-it demand that puts Mr. Xi in political peril.

That fear was reinforced when Mr. Trump walked out of a Hanoi summit in late February with North Korean leader Kim Jong Un.

—*Vivian Salama in Washington and Lingling Wei in Beijing contributed to this article.*

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the name as King & Spaulding. (4/4/19)

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