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WORLD

U.S.-China Trade Talks End Without a Deal

Beijing plans to retaliate against new U.S. tariffs, as Trump and Xi are set to attend G20 summit in June

By *Bob Davis*

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WASHINGTON—U.S. and Chinese trade negotiators failed to break an impasse following two days of globally watched trade talks, as both sides tried to prevent sentiment from deteriorating further.

In tweets Friday afternoon, President Trump said newly imposed 25% U.S. tariffs on \$200 billion in Chinese imports would remain in place pending future negotiations. But he called the talks “candid and constructive” and said his relationship with Chinese President Xi Jinping “remains a very strong one and conversations into the future will continue.”

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U.S.
stocks
rallied
on
Friday

afternoon after Treasury Secretary Steven Mnuchin told CNBC the talks were constructive, erasing earlier declines. The S&P 500 rose 0.4% but still logged its largest weekly drop of 2019. Friday was the latest example of trade signals affecting global stocks and commodities, with investors fearing a pullback in economic activity.

The U.S. on Friday made good on Mr. Trump’s Sunday threat to raise tariffs on \$200 billion of goods to 25% from 10%—a level that White House officials have privately said was enough to “lock out” Chinese goods.

Mr. Trump also ordered the chief U.S. trade negotiator to begin the process of raising tariffs on everything else China sells to the U.S.—about \$300 billion worth—that isn’t already hit by levies. He also suggested on Friday that the U.S. would resume paying farmers for lost exports to help insulate them from the trade battle with China, signaling that the U.S. is ready for a prolonged fight.

Chinese envoy Liu He showed up for a second day of talks on Friday despite the White House’s unwavering plan to escalate tariffs. He was greeted at the door of the U.S. Trade



China Vice Premier Liu He, left, said goodbye to U.S. Treasury Secretary Steven Mnuchin, center, and U.S. Trade Representative Robert Lighthizer, right, after trade talks between the two countries in Washington on Friday. PHOTO: ERIK S LESSER/SHUTTERSTOCK

Representative's office by the top U.S. negotiator, Robert Lighthizer, who rarely makes such gestures.

Nor did China immediately retaliate, as it has done every other time the U.S. imposed tariffs, although Beijing said it planned countermeasures.

"China hopes that the United States can meet China halfway, and that the two sides will make joint efforts to resolve existing problems," said a statement carried by the official Xinhua News Agency. Mr. Liu, speaking to Chinese state media, characterized the dispute as a normal bump in the negotiations and said Beijing was cautiously optimistic about future talks.

While the two sides didn't set a new date to resume them, one potential looms on the horizon. Mr. Trump and Mr. Xi will both attend a Group-of-20 meeting in Japan next month, giving them a chance to arrange another summit.

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When trade talks broke down in September after the U.S. first imposed 10% tariffs on the \$200 billion of Chinese goods the two leaders used a G-20 meeting in December to launch intensified negotiations. Mr. Trump also said on Friday that he expected to talk to Mr. Xi.

Still, the two sides remain far apart and there isn't a clear path to a pact. The U.S. says that it resorted to the tariff increases only after China reneged on commitments it had earlier made. Those included listing in the trade

agreement the laws that it intended to change, which cover areas like intellectual property, subsidies and forced technology transfers, say people in the U.S. and China following the talks.

Beijing has portrayed the change as simply part of the back-and-forth of negotiations.

Officials there say that China is willing to boost intellectual property protection, but through regulatory changes—specifically directives issued by the State Council, the government's top executive body.

For U.S. negotiators, that isn't sufficient. Past fights involving what was called “indigenous innovation”—subsidies for high-tech companies which favored China's domestic firms—were settled by State Council directives. But U.S. negotiators say that the directives didn't result in big changes in Chinese behavior.

Beijing argues that the difference between State Council regulations and legal changes isn't “a substantive issue,” said Eswar Prasad, a Cornell University China specialist who speaks with Chinese negotiators. “That's somewhat disingenuous,” Mr. Prasad said. “With Trump looking soft to them, they thought they could pull back on some elements.”

People familiar with the Chinese position believe Beijing interpreted actions by Mr. Trump—including his demands on the Federal Reserve to lower interest rates—as a sign of concern that the U.S. was eager to get a deal.

Beijing had complaints about U.S. recalcitrance too. U.S. negotiators continued to insist that even if China signed a deal, they wouldn't lift any of the tariffs on \$250 billion in Chinese goods the U.S. has imposed so far. Instead the U.S. wanted to make sure China met its pledges before removing any levies—although Mr. Trump's Friday afternoon tweet suggests there may be some give in that position.

Tariffs “may or may not be removed depending on what happens with respect to future negotiations!” he wrote

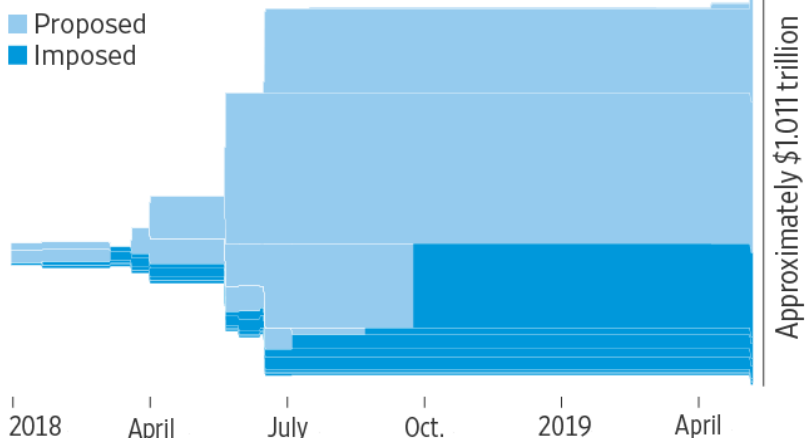
In addition, the U.S. is pressing Beijing to agree not to retaliate if the U.S. judged that Beijing didn't meet some of its obligations under the trade deal and imposed tariffs.

Those demands were too much for Beijing, said Chinese officials, who viewed the lifting of tariffs as their priority. Without even that concession from the U.S., it became more difficult for Beijing to accept the demands for legal and other changes, said people following the talks. To Chinese eyes, “the deal looks unbalanced,” said Brookings Institution China specialist Cheng Li.

In Washington, the U.S. is portraying its problems with China as a fight between Communist Party hard-liners who want to maintain the status quo and reformers, led by Mr. Liu, who believe China must move toward a more market-based economy.

Trade's Widening Battleground

U.S. tariffs on imports



Sources: U.S. Census Bureau; U.S. International Trade Commission

“My own view is that these were serious, real commitments that were enforceable and that some people in China found difficult and objected to,” said Mr. Lighthizer in a briefing to reporters on May 6.

With the U.S. standing firm on tariffs, the Chinese leadership may now need to find someone to blame for its hard-line negotiating tactics, said Hudson Institution China scholar Michael Pillsbury, who advises

the administration on how Beijing looks at the talks.

“President Xi may need a scapegoat for whoever came up with the idea of testing President Trump,” said Mr. Pillsbury.

Others believe it may be Mr. Xi and his senior leaders who are unhappy with the deal and who ordered Mr. Liu, the trade envoy, to back off from any commitment to make changes in Chinese law.

“The leadership is in agreement,” said Mr. Li, the Brookings China specialist. “They are all very angry (with the proposed deal). The domestic environment is changing for them. They can lose the deal, but they can’t be seen as too soft on the U.S.”

—*Josh Zumbrun*
contributed to this article.

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