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WORLD

U.S. Asks China for Plan to Reduce Trade Deficit by $100 Billion

Trump's tweet says request was for a $1 billion cut annually—less than 0.3% of the countries' annual trade gap

Chinese police officers watch a cargo ship at a port in Qingdao in China's eastern Shandong province on Thursday. PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES

By Lingling Wei

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BEIJING—The Trump administration is asking Beijing for a plan to cut the annual U.S. trade deficit with China by $100 billion, according to people familiar with the matter.

President Donald Trump tweeted Wednesday that Washington had asked Beijing for a $1 billion reduction—less than 0.3% of the countries' annual trade gap or around one day's worth of the trade imbalance. His tweet was off by $99 billion.

According to the people, Trump administration officials made the request to Liu He, the main architect of China's economic policy, last week when he was in Washington. Mr. Liu said in his Washington meetings that narrowing the vast bilateral trade deficit was in China's interest as China seeks to shift away from an export-led growth model. It is unclear how feasible the deficit-reduction goal is for Beijing and what kind of plan it could offer.

Cornell University economist Eswar Prasad, who was briefed by Chinese officials about the Liu visit, said they told him the U.S. was pressing for a reduction in the bilateral trade deficit by about one-third.

The tweet came at a time of rising global trade tensions, with the relationship between the world's two largest economies at the center. Having set new solar-panel tariffs in January, mainly aimed at China, Mr. Trump now plans to impose stiff tariffs on all steel and aluminum imports to the U.S. The plan has stoked fears of a global trade spat and has drawn broad opposition from U.S. trading partners as well as U.S. lawmakers.

The impact of the proposed U.S. tariffs on Chinese steel and aluminum makers is ultimately expected to be small. What could come in the coming months likely will be more damaging to China. The Trump administration is weighing broad trade and investment penalties against Beijing as it completes a probe into allegations of Chinese theft and expropriation of American intellectual property.

The wording of Mr. Trump's tweet was: "China has been asked to develop a plan for the year of a One Billion Dollar reduction in their massive Trade Deficit with the United States."

The tweet continued: "Our relationship with China has been a very good one, and we look forward to seeing what ideas they come back with. We must act soon!"

Mr. Trump followed his tweet on the trade gap with one that said: "The U.S. is acting swiftly on Intellectual Property theft. We cannot allow this to happen as it has for many years!"

U.S. technology companies have been preparing for administration actions, which they fear could come in weeks.

Chinese officials have been cautious in their responses to Mr. Trump's trade offensive. "In the event of a trade war, China will make proper and necessary responses," Chinese Foreign Minister Wang Yi said at a Thursday news conference, on the sidelines of China's annual legislative session.

Within China, officials and trade experts have expressed frustration at what they see as Mr. Trump's fixation on the trade deficit, saying the imbalance is mainly a result of Americans' lavish spending on foreign-made goods and that it can't be solved by punishing China. Some officials have also taken issue with U.S. restrictions on high-tech exports to China, arguing the bilateral deficit can't be reduced without the U.S. relaxing those restrictions first.

On Thursday, China posted data showing that its monthly surplus with the U.S. narrowed slightly in February to just below $21 billion from $21.9 billion in January, even as its wider surplus with the world widened on an almost 45% surge in Chinese exports. Its surplus with the U.S. makes up nearly two-thirds of China's overall trade imbalance.

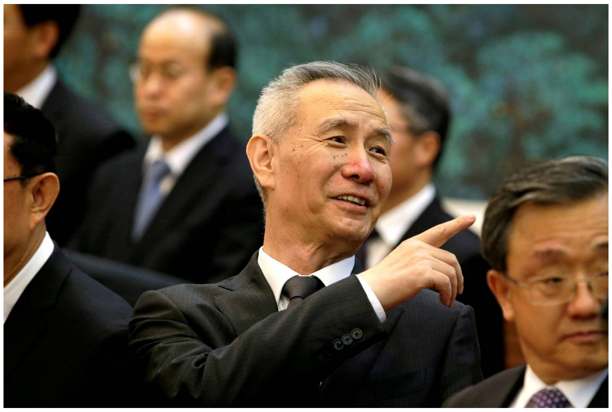
"Today's data suggest the threat of a trade war is real," said Larry Hu, China economist at Macquarie Group, noting that China's surplus with the U.S. in the first two months of this year reached the highest for the same period in history. Data for the early part of the year are often combined to even out distortions from the timing of the Lunar New Year holiday.

"It is reasonable for the U.S. to ask China to open up more markets which would lead to more U.S. exports. But this will not necessarily reduce the bilateral imbalance," said Brooking Institution China scholar David Dollar, the top Treasury Department official in Beijing during the Obama administration. Mr. Dollar said the gap would almost certainly keep widening because Mr. Trump's tax cuts would encourage demand, including for foreign goods.

Further stoking fears of a trade war is the resignation of Gary Cohn as Mr. Trump's top economic adviser.

Mr. Cohn had been seen as the biggest champion of globalist economic principles inside the White House and had opposed the steel and aluminum tariffs. Peter Navarro, a stark critic of

Beijing's trade practices and author of "Death by China," is viewed as a potential contender to succeed Mr. Cohn.



Liu He, the main architect of China's economic policy, told a group of Chinese lawmakers that his meeting last week with U.S. officials in Washington was 'candid and constructive.' PHOTO: REUTERS

The Trump White House has cast aside the strategy of prior administrations, which engaged in regular discussions with China to try to win concessions for U.S. companies. That strategy was seen by many within the U.S. as producing minimal gains for American companies while China became a global trading power with a big trade surplus.

Instead, the U.S. has now ended formal bilateral negotiations and has asked Beijing to make sweeping changes to the economy, such as eliminating subsidies for state-owned firms and leveling the playing field for U.S. companies operating in China.

At a meeting on the sidelines of China's legislative session Wednesday, Mr. Xi's economic adviser sought to deliver a reassuring message to a group of lawmakers that China and U.S. would keep their communications going to ease trade tensions.

Mr. Liu described his exchanges with U.S. officials including Mr. Cohn, Treasury Secretary Steven Mnuchin and Trade Representative Robert Lighthizer as "candid and constructive," according to people with knowledge of the event.

"Both sides said there won't be a trade war," Mr. Liu told the group of some 60 lawmakers.

—Bob Davis in Washington contributed to this article.

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