U.S.

China Draws Up a Shopping List of American Goods to Avoid Trade War

Beijing and Washington are both looking to reduce trade deficit

U.S. Trade Representative Robert Lighthizer was part of a delegation sent to Beijing last week. PHOTO: JASON LEE/REUTERS

By Lingling Wei in Beijing and Bob Davis in Washington

Updated May 10, 2018 2:41 a.m. ET

China likely will offer to import more U.S. goods during negotiations in Washington next week as the two sides see one of the best ways to avert an all-out trade war is for Beijing to buy American.

Sufficient progress was made when a senior U.S. delegation went to Beijing last week, say the two sides, that China is dispatching its chief economic envoy, Liu He, to Washington in the days ahead, though China hasn't confirmed his arrival date. Mr. Liu is expected to come with a shopping list of sorts, specific ideas for purchases designed to narrow the two country's vast trade imbalance.

Chinese officials expressed willingness to work with the U.S. to reduce the trade gap during last week's talks, but they didn't agree to the U.S. demand that China cut its trade advantage by $200 billion by the end of 2020. Last year the U.S. ran a $375 billion merchandise trade deficit with China and a $337 billion shortfall when counting services.

Settling the dispute is taking on a degree of urgency as the tensions between Washington and Beijing are already affecting trade flows between the two nations. Since the U.S. first threatened tariffs on Chinese imports in January, U.S. exports have faced growing hurdles when entering the Chinese market: automobiles are being held up at Chinese customs, pork exports are facing tough new inspections, and farm goods, including soybeans and other farm products, are threatened to be hit with retaliatory tariffs.

Reducing the trade imbalance is an area both nations have chosen as a priority. President Donald Trump associates the deficit with lost U.S. jobs. Beijing officials say they need to cut China's reliance on exports as a way to build a modern economy focused more on consumption.

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Trump last week sent his senior economic team—including Treasury Secretary Steven Mnuchin and U.S. Trade Representative Robert Lighthizer —to try to make progress. As the U.S. officials headed to Beijing, they issued an eight-point plan on trade and investment, which largely amounts to a request that China change the way it manages its economy, along with the demands to reduce the deficit.

Right before the Beijing meetings, both sides put forward a number of far-reaching proposals that would require significant changes in economic policy to address the trade imbalance. Those discussions didn't go much beyond each side presenting their proposals. The U.S., for instance, asked China to stop providing subsidies and other assistance for advanced technologies—a request Beijing views as unacceptable. The Chinese side demanded that the U.S. ease national security reviews of Chinese investments, a nonstarter for Washington.

U.S. negotiators went into the first day of talks with low expectations, thinking they would walk out if the talks didn't go well, according to people familiar with the matter. But the Chinese negotiators led by Mr. Liu told them that Beijing takes U.S. concerns seriously and recognizes the deficit is a priority for Washington. The goodwill made U.S. officials "feel very good," one of the people said.

On the second day of talks, the focus was on how to bring down the bilateral deficit. The Chinese side didn't agree to the targets set by the Americans. The U.S. dismissed a Chinese proposal to lift export controls on U.S. technology goods and services. Still, both parties agreed to keep talking.

It is far from clear whether even a good-faith effort by China to reduce the deficit would be enough to satisfy the Trump negotiating team, which is sharply divided by internal rivalries. Mr. Mnuchin, for instance, has been leading talks on deficit reduction. Some in industry and government worry that he is too ready to cut a deal as a way to calm markets, say individuals briefed on the talks. Mr. Lighthizer has been leading negotiations on more fundamental changes.

During several sessions, Messrs. Liu and Mr. Mnuchin met without others, leading to concerns among some industry groups that Mr. Mnuchin was trying to freelance a deal that would leave the U.S.-China trade relationship unchanged.

The administration says that isn't the case and in two-on-two meetings Mr. Lighthizer was always added. "The U.S. delegation was unified and coordinated in meeting with Chinese counterparts, and Secretary Mnuchin and Ambassador Lighthizer continue to work very closely together on all relevant issues," said Emily Davis, a spokesman for Mr. Lighthizer.

Individuals following the talks said the deficit talks were the main positive outcomes of last week's negotiations in Beijing. It isn't clear exactly what purchases the Chinese will target to right the trade imbalance, but such a plan would invariably include commodities such as natural gas or manufactured goods like autos and airplanes. The plan would also involve


Liu He, China's chief economic envoy, is coming to Washington. **PHOTO:** LINTAO ZHANG/GETTY IMAGES

expanding purchases of U.S. services, from insurance to cloud computing.

Economists say a goal to simply reduce the bilateral trade deficit goal isn't realistic because deficits reflect broad economic issues—specifically the difference between national savings and investment. Using trade policies to hit a target would require "massive intervention" on China's part—moving Beijing further away from market-directed policies—as the government essentially would have to tell companies what to buy abroad and where to buy it from, said Eswar Prasad, a Cornell University professor of international trade.

Still, the U.S. figures requiring a trade deficit reduction would mean more U.S. exports—a political win for Mr. Trump—as well as big changes in Chinese economic policies. That is because the U.S. merchandise trade deficit is so vast, China couldn't cut it much simply by redirecting purchases to the U.S. Instead, U.S. negotiators figure, China would be forced to make the kinds of fundamental changes it seeks.

Those include slashing tariffs on cars and other goods, eliminating joint venture requirements, ending prohibitions on U.S. movies and other service imports and easing the way for U.S. cloud computing and other data providers to do more business in China. The U.S. plan specifically encourages China to increase purchases of services as well as goods.

Despite the encouraging words by the leaders, trade relations between the two nations remain tense and, by some measures, are actually worsening. Chinese customs authorities have been "slow walking" some Ford imports for a few weeks, said a person familiar with the matter.

The trade fight has also cut into American farms' sales to China, one of the world's biggest markets. In April, China announced tariffs on some U.S. agricultural goods and threatened to target others, in retaliation for U.S. tariffs on Chinese steel and aluminum exports.

Now, the U.S. pork industry faces stricter scrutiny over meat exported to China. Since late April, Chinese customs officials have inspected all shipments of pork from the U.S. and boosted sampling rates to 20% of those shipments, according to the U.S. Department of Agriculture. For U.S. pork exporters already dealing with tariffs on their product that China implemented in April, the new steps "will likely add additional costs to the importing process," USDA officials said.

It isn't clear Mr. Trump would approve a deal that doesn't involve deep changes in the Chinese system. When Commerce Secretary Wilbur Ross last year brought back a deal that amounted to increased Chinese purchases, Mr. Trump rejected the plan, canceled further talks and stripped Mr. Ross of his lead role on China. One big difference between then and now: the U.S. is close to a deal on North Korea nuclear weapons and needs Beijing's help.

China is negotiating under an approaching deadline for additional tariffs as part of a U.S. allegation that China forces U.S. companies to transfer their technology to Chines partners. A comment period on a U.S. proposal to levy tariffs on $50 billion in Chines goods ends May 22, the same date that the U.S. Treasury is scheduled to propose stiff restrictions on Chinese investment in U.S. high technology.

The U.S. is also threatening tariffs on another $100 billion on Chinese goods as part of the same dispute. China has vowed to retaliate in kind. A failure to reach a deal would raise the chances that the tariffs would go into effect, potentially disrupting global supply chain along the way.

— Christina Rogers and Mike Colias in Detroit, and Jacob Bunge in Chicago contributed to this article.

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