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Trade talks in Beijing: China says it won't back down to US

Talks begin in Beijing today between a high-level US economic delegation and Chinese authorities on trade, with little prospect of any significant movement by either side in the deepening conflict.

Ahead of the negotiations, which will last two days and involve China's vice-premier, Liu He, state-owned media insisted that China would not back down in the face of US demands following the imposition of tariffs on \$50 billion worth of Chinese goods and the possible addition of a further \$100 billion worth of goods.

"Washington had better not expect that its trade-war stick will force Beijing to take whatever the US delegation offers. China won't abandon its principles despite pressure," the *Global Times* said in an editorial published on Wednesday.

The newspaper is often described as "hawkish," but its views on this question reflect those within top government circles.

The *South China Morning Post* cited a government official "close to the trade talks" as saying that Washington could not set preconditions for the negotiations and China had the strength to fight a trade war to the end if it broke out.

"We will not offer concessions on anything we consider to be our core interest," the official said.

The immediate demand of the US is for a reduction of \$100 billion in the Chinese trade surplus with the US, which hit \$375 billion last year and could go even higher this year.

But the conflict is over more than the trade numbers. The overriding concern of the US is China's move under its "Made in China 2025" program to develop its high-tech capacities in communications and other areas. Washington regards the program as a threat to American economic and military supremacy.

"Whether it's the 2025 plan or the \$100 billion trade deficit ... we will not bow to threats, nor will we accept any preconditions for negotiations," the Chinese official said.

"There are too many issues that we may not be able to solve in one round," he said. "Both sides can continue the discussions in Beijing or in Washington. If the talks break down and the US escalates their actions, we are also well prepared for it."

The US delegation, which is being led by Treasury Secretary Steven Mnuchin, includes the two leading anti-China hawks within the Trump administration, White House National Trade Council Director Peter Navarro and US Trade Representative Robert Lighthizer.

Speaking on the eve of his departure for Beijing, Lighthizer said, "Our list of things that are troubling [in China] is very long."

According to a report in the *Financial Times*, Lighthizer told a US Chamber of Commerce meeting on Tuesday that China's economic model of "state capitalism" was a direct challenge to the US economy. The "Made in China 2025" plan, in which it is seeking to become a world leader in ten industries, represented a threat to the future of the US economy and the employment prospects of "our children," he said.

Lighthizer claimed it was not his objective to change the Chinese system, "but I have to be in a position where the United States can deal with it, where the United States isn't the victim of it."

Lighthizer was the leading force behind a declaration from his office earlier this year that the US had "erred" in its decision to back China's entry into the World Trade Organisation in 2001.

The report from the Office of the US Trade Representative said that China's 2025 strategy had the "final goal" of capturing "much larger world market shares" in the targeted areas.

Anti-China rhetoric was also a theme of President Trump's address to a Michigan rally at the weekend. "[China] became a major power after joining the World Trade Organization, which is a horror show for us," he said.

Remarks by Commerce Secretary Wilbur Ross, who is also on the delegation, have been no less belligerent. In an interview with CNBC on the trade talks he indicated he had "some hope," but made it clear the US was ready to proceed with more tariffs and other measures if it did not win concessions.

“President Trump is of the view that it’s now time for action,” he said. “Our trade deficit is too big, too continuing, too chronic and too inspired by evil practices.”

According to the US, these “evil practices” include Chinese theft of intellectual property, forced technology transfers in which US companies investing in China have to divulge knowledge to their joint venture partners, moves by Chinese companies to acquire US firms in order to gain access to technology advances, and the use of state funding to boost technological development.

In other words, China’s recourse to methods similar to those employed by US capitalism in its rise to global dominance represent an existential threat and must be halted.

Action is already being taken by the US. Legislation is now before Congress that would give the Committee on Foreign Investment in the US, which examines inbound investments for potential national security threats, the power to investigate joint ventures overseas on the same basis.

Yesterday, the *Wall Street Journal* reported that the Trump administration is considering action to restrict the ability of Chinese companies to sell telecommunications equipment in the US on grounds of “national security.”

China’s two leading manufacturers of telecommunications equipment, Huawei and ZTE, would be adversely affected by any ban. ZTE has already been hit by a decision to ban US firms from selling components to it for seven years, on the grounds that it breached an agreement reached after it had been found to be in violation of US restrictions on trade with North Korea and Iran. It has been reported that the US Justice Department is also considering action against Huawei over the same issue.

While there may be some limited announcements from the Beijing talks, which will have to go to Trump for final approval, the underlying conflicts are not going to be resolved and are set to intensify.