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European Languages

زبانهای اروپایی

3 November 2018

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05.11.2018

Trump manoeuvres in lead-up to talks with Chinese President Xi

US President Donald Trump has started to manoeuvre in preparation for a meeting with his Chinese counterpart Xi Jinping on the sidelines of G20 summit at the end of the month. The aim is either to extract major concessions from China or, failing that, create the best conditions for pressing ahead with trade war measures.

On Thursday, Trump had what he described as a “long and very good conversation” with Xi. He told the press that things were moving along “nicely,” suggesting that there was progress in resolving the trade conflict. Larry Kudlow, director of the White House National Economic Council, told the *Wall Street Journal* that there was a “thaw” and “relations and communications are resuming” at the presidential level.

This was followed by a report on Bloomberg TV that Trump had directed key cabinet members to have their staff draw up an agreement to bring about at least something of a ceasefire in the trade conflict.

The basic position of the US is that there will be no meaningful discussions at the G20 unless China sets out concrete responses to its demands, above all on the key questions of intellectual property safeguards and state subsidies, which Washington claims are market distorting.

So far, the Chinese have failed to respond. This is for two reasons: they fear that any negotiating position they put forward will simply be used by the US to extract further concessions, and they consider the US demand that Beijing pull back on industrial development to be totally unacceptable and not subject to negotiation.

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The prospect of some easing in the US position initially lifted both US and Asian stock markets. Major corporations are fearful that the further intensification of trade war, including the threat by Trump to impose tariffs on all Chinese goods coming into the US, will have significant consequences on both costs and the organisation of global supply chains.

However, Wall Street took a dive yesterday, partly in response to a statement by Kudlow pouring cold water on any breakthrough on a US-China agreement. “There’s no massive move to deal with China,” he told the business channel CNBC. There was merely a “normal run-through of things we’ve already put together and normal preparation.” He added, “We’re not on the cusp of a deal.”

Given the attitude of the US towards any deal with China, especially the events of May when Trump scrapped an agreement that Treasury Secretary Steven Mnuchin said had put the trade war “on hold,” there was already considerable scepticism about the prospects for a meaningful agreement even before Kudlow’s remarks.

Speaking to Bloomberg on the possibility of a broad deal, Michael Every, head of Asia financial markets research at Rabobank in Hong Kong, said: “I don’t buy the story for a second. This seems a perfect way to ensure equities rally into election day [Tuesday], put Xi in a box in terms of what is expected of him, and then have someone to blame when the deal then falls through.”

Rather than pointing to an easing of the US stance, the telephone discussion with Xi on Thursday was initiated by Trump under conditions where its basic position is hardening. Hours before the conversation, federal prosecutors laid out charges they are bringing against the Chinese state-owned high-tech firm Fujian Jinhua. The move by prosecutors came in the wake of a decision by the Commerce Department to ban US firms from dealings with Fujian on “national security” grounds.

Fujian, backed by \$5.7 billion in state funds, has been set up to develop a world class semiconductor industry in China and lessen the country’s dependence on the import of foreign components. But at this stage, Fujian still depends on US chips and the Commerce Department ban has dealt it a crippling blow.

The Justice Department is charging that Fujian stole trade secrets from Micron, a US semiconductor manufacturer. The indictment also names United Microelectronics, a Taiwan-based chipmaker, in what Attorney General Jeff Sessions said was “brazen scheme” to steal secrets worth up to \$8.75 billion.

The move against Fujian is part of a broader offensive by the Trump administration against alleged Chinese spying and other activities. According to the *Wall Street Journal*, Sessions indicated that “a new working group of Justice Department officials, including the top federal prosecutors from districts in California, Texas and other states, would increase law-enforcement engagement with US universities, where the Justice Department contends that Chinese Communist party initiatives target technology and threaten academic freedom.”

The underlying US agenda at the forthcoming discussions between Trump and Xi is indicated by the manner in which the talks are being organised. Overall responsibility on the US side is not in the hands of a cabinet member in charge of economic matters, such as Treasury Secretary Mnuchin or Commerce Secretary Wilbur Ross, but instead has been given to National Security Adviser John Bolton.

Bolton, together with other hard-liners in the administration, including White House economic adviser Peter Navarro and US Trade Representative Robert Lighthizer, consider that the essential issue is not to reach a deal with China on the trade imbalance, but rather to prevent Beijing from undertaking its own development of high-tech industries, which could threaten the economic and military supremacy of the US.

The attitude of these key figures was indicated in a *Wall Street Journal* article on Thursday. Citing US officials, the article said Lighthizer had been arguing that the time was not ripe for negotiations because China had not yet felt the full brunt of the US tariffs imposed so far.

In other words, the essential US strategy is to inflict more pain on the Chinese economy, already experiencing its lowest growth rate since the financial crisis of 2008-2009 amid significant concerns over rising debt, and open up cracks within the Xi regime that will enable the US to extract significant concessions.