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US and China put divergent spin on outcome of trade talks

Stock markets around the world rose on Monday following the temporary ceasefire in the US-China trade war announced after the G20 summit meeting over the weekend, with Wall Street's Dow index finishing up almost 300 points.

However, the phrase “fog of war” comes to mind upon an examination of the statements by the two sides on the outcome of the talks between President Trump and Chinese President Xi Jinping. No official statement signed, and the differences in the accounts of what took place and what was agreed give the appearance that the two leaders were at different meetings.

Both sides claimed progress had been made in the talks, described as “highly successful” in the US version and “very successful” in the Chinese account. But after that they diverge considerably, as, in absence of a statement of record, each side puts its own spin on the outcome.

The most important difference centres on the key demand by Washington that China make far-reaching “structural” changes to its economy in the area of high-tech development, which the US regards as a threat to its dominant economic position.

According to the statement from White House Press Secretary Sarah Sanders: “President Trump and President Xi have agreed immediately to begin negotiations on structural changes with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft and agriculture. Both parties agree that they will endeavour to have this transaction completed within the next 90 days. If at the end of

this period of time, the parties are unable to reach an agreement, the 10 percent tariffs will be raised to 25 percent.”

The Chinese statement made no mention of what the US calls “structural” changes or the raising of the tariff rate after 90 days if an agreement cannot be reached on this issue. It said only that both sides had reached an agreement to “step up negotiations toward the removal of all additional tariffs and reach a concrete agreement that would result in win-win results.”

The US version of events has at least been partially called into question by Trump’s claims in a tweet on Sunday night that the Chinese side had agreed to reduce tariffs on US auto imports. The supposed tariff cut, which boosted the share prices of auto companies, was not mentioned in either the US or Chinese statements on the talks.

Scrambling to explain the claim, Trump’s economic adviser Larry Kudlow said the cut was a “commitment,” not necessarily a trade deal. He added that “it’s stuff that they’re going to look at and presumably implement.” Asked about why the auto tariffs were not mentioned in either of the two statements, Kudlow simply denied the fact. “I don’t agree with that,” he said.

There were other divergences. The US statement said China “will agree to purchase a not yet agreed upon, but very substantial, amount of agricultural, energy, industrial, and other product from the United States to reduce the trade imbalance,” and that China had agreed to “start purchasing agricultural product from our farmers immediately.”

The Chinese statement said only that China would import more US goods.

There was also a difference on two key political issues. The Chinese statement said Xi had reiterated China’s stance on the issue of Taiwan and “the US side pledged to continue to adhere to the one-China policy.” This was not mentioned in the US account.

According to the Chinese statement, Trump had said the US “welcomes Chinese students to study in his country.” But this was not mentioned in the US version.

This issue is significant because of a growing campaign in the US to brand Chinese students and researchers, especially in high-tech areas, as spies for the Chinese government.

The Chinese statement also included a sentence that points to a major obstacle in the way of any lasting agreement. It said that a “concrete agreement featuring mutually beneficial and win-win results is the foundation of any positive moves from the Chinese side directed towards the US side.”

In other words, for China to begin to meet US demands, there must be a *quid pro quo*. But this has already been ruled out from the US side. In the statement setting out its basic position last May, the Trump administration demanded, offering nothing in return, that China take action to wind back its program for industrial and technological development under its “Made in China 2025” program, and that it simply accept US tariffs without objection or retaliation.

That position has hardened in the past six months with the imposition of tariffs on \$250 billion worth of Chinese goods, and restrictions on Chinese high-tech companies wanting to import vital components from US firms, coupled with a campaign by Washington to ensure that its allies do not use the Chinese firm Huawei in the development of 5G phone networks, on “security” grounds.

As the *Financial Times* commented, since it is “virtually impossible” for Xi to “implement or even agree to” the “far-reaching changes to the Chinese economy” being demanded by the US, “it is almost certain that the trade war will resume with a vengeance by the end of February 2019.”

A key indication of the direction of the negotiations in the next 90 days is the decision that US Trade Representative Robert Lighthizer, who, together with White House trade adviser Peter Navarro, is the key hardliner on China, will lead the US negotiating team, rather than China’s preferred option, Treasury Secretary Steven Mnuchin.

Since May, Lighthizer has *de facto* been in charge, but Mnuchin, as a cabinet member, has nominally occupied the key position. Mnuchin has been regarded as more in favour of securing increased US exports to China, which Beijing is prepared to accommodate, as opposed to Lighthizer, who insists that the key issue is to prevent Chinese technological development. But Lighthizer’s appointment appears to have closed any gap that Beijing may have hoped to exploit.

In interviews since the Trump-Xi talks, Mnuchin has insisted there is unity on the US side “There’s a 100 percent unanimous view on our economic team that this needs to be a real agreement,” he told the *Financial Times*. “There can’t be soft commitments from China. There need to be specific dates, specific action times.”

In other words, unless the Chinese side takes specific, verifiable measures to meet US demands, above all on so-called “structural” changes, then tariffs, as well as other possible measures, will be escalated.