



# US-CHINA TRADE BRIEFING FOR PLMR

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This Report is the fourth in a series of private papers prepared by PLMR which will look at the challenges and opportunities presented by working with and in China in 2018 and beyond.

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## US-CHINA TRADE DISPUTE

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### US-CHINA RELATIONS

Over the course of 2018, the US-China relationship has been in a state of steady decline. Where once both Xi and Trump referred emphatically to their fast friendship, tensions over the trade relationship between the two countries have seen that friendship fade. The dispute over trade has increasingly spilled into other areas including security matters and even an accusation of Chinese involvement in the US Congressional Elections in November 2018.

Both sides will be seeking a face-saving resolution and the Chinese leadership's assertions that China is keen to find a solution is more than mere rhetoric. Hopes have been pinned on the Xi-Trump meeting in the margins of the G20 which took place in Argentina from 30 November 2018 to 1 December 2018, with tensions cooling slightly at the time the meeting was agreed. Suggestions that Vice Premier Liu He would travel to the US in November for preliminary discussions ahead of the G20 have not materialised, and experts suggest that back-channel negotiations have come to a standstill as the Chinese leadership has grown frustrated with Trump contradicting both formal and informal agreements.

### ORIGINS AND EVOLUTION

During his campaign for presidency Trump began to openly castigate the trade relationship with China and cited unfair and imbalanced trade practices and intellectual property theft as the catalysts for launching a formal investigation against China on these matters in August 2017. Trump, amongst others, asserts that China imposes restrictions on foreign companies such that they must enter into joint ventures with Chinese companies and agree to share their technologies. Furthermore, China is accused of patent recognition non-compliance and practices that discriminate against foreign technology.

The bilateral relationship oscillated in the second half of 2017 and by early 2018 Trump was threatening extensive tariffs on imports from China. Sectors targeted included consumer goods, aerospace, and information and communication technology. Tariffs imposed by the US in April and March 2018<sup>1</sup> were met with retaliation from China and despite the occasional cooling off period the dispute has continued to escalate since.

Thus far, the US has imposed tariffs ranging from 10% to 25% on \$250 billion worth of Chinese imports with threats to increase the percentage rate and to include more goods in 2019. China has responded with tariffs of its own ranging from 5% to 25% on \$110 billion worth of American goods and has looked elsewhere for products including soybeans. Until the Xi-Trump meeting, Trump had been threatening to increase the tariffs from January 2019.

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<sup>1</sup> These tariffs were not limited to imports from China however Beijing felt China was the key target

## THE VIEW FROM CHINA

Exports from China to the US have increased since the beginning of the trade disputes<sup>2</sup>. Sources explain this as a rush to buy cheap Chinese goods before tariffs are raised to 25% in 2019 however some Chinese officials believe that this is an indication of the continued strength of the Chinese economy and the reluctance of US businesses to capitulate to Trump's every whim. On the other hand, Xi is said to have a more level view of the state of the Chinese economy and is reluctant to engage in an extended dispute for fear of the long term economic impact.

China has already been pulling at the domestic levers in order to slow the impact of the trade war including deprioritising the deleveraging drive and unofficially encouraging local government stimuli. Despite this, experts suggest that the Chinese economy is in a far weaker position than the international community and even realists in the Chinese government realise and the leadership is underestimating the truly precarious position that the country would be in should the dispute rage on.

In addition to domestic efforts to steel the Chinese economy, Xi has initiated an international diplomatic effort with a stated aim of deepening friendship and enhancing unity in the international community. Xi is hoping that this will counteract the American narrative that China is perpetrating an imbalanced dynamic in the international environment.

## OPPORTUNITIES FOR REFORM

Chinese economic reformers have been leveraging the opportunity presented by the trade war to push for deeper economic reforms. Members of Vice Premier Liu He's<sup>3</sup> inner circle are included in this number. Their proposed reforms are significantly aligned with the US demands and as such experts suggest that Xi is likely to play his hand in an interesting way. Market access, fewer subsidies for SOEs, and intellectual property rights all feature in his deck. He is said to have been looking for concessions which benefit US businesses over the US' political ambitions, for example strengthening IP but in non-strategic sectors, and which also contribute to the existing trajectory of China's broader reform agenda.



<sup>2</sup> The US-China trade surplus is up 15% since 2017

<sup>3</sup> Liu He has led the Chinese trade negotiation effort

## BILATERAL RELATIONS

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In September 2018, the US proposed a round of trade talks however both sides implemented a fresh round of tariffs in the run up and China cancelled the talks. In private discussions officials said that the decision to cancel was taken because the circumstances around the talks were toxic and a positive outcome was unlikely. Contact was re-established in late October as officials made plans for the two Presidents to meet at the G20 and promisingly, Vice Premier Liu He was said to be planning a visit to the US in the run up to the Xi-Trump meeting, having already cancelled one trip earlier in the year, however this trip never materialised. Insiders suggest that the Chinese leadership felt it would be counterproductive to show their cards too soon. The view from Beijing is that the US were and are unlikely to act in good faith and stick to any provisional agreements made, their strategy has been focused on how best to deal with Trump's unpredictable actions.

In November, U.S. – China discourse was revived with the U.S. – China Diplomatic and Security Dialogue (D&SD) a round of security focused talks hosted in Washington. This had previously been scheduled to take place in Beijing in October but was cancelled with both sides blaming the other. Yang Jiechi, director of the CPC Office of the Central Leading Group for Foreign Affairs<sup>4</sup>, and Wei Fenghe, Minister of National Defence<sup>5</sup>, headed up the Chinese delegation.

The dialogue served to highlight the disparity in the positions of the US and China on a range of subjects including the South China Seas and freedom of navigation, Taiwan, the Iran Nuclear deal, and the ongoing trade war. Despite this covering such a wide range of subjects in one sitting, China is taking a segmented approach to the bilateral relationship. Although both parties commented on their respective positions regarding trade, the D&SD seems to have had no specific impact on the trade relationship and negotiations.

## G20 XI-TRUMP MEETING

A Xi-Trump took place on 1 December 2018. Negotiators from both teams were frantically working on the details in the few days prior. Xi was hoping for a positive outcome and went to the table prepared to make some concessions. Trump was keeping Xi on his toes with mixed messaging which Xi and his team are interpreting as a strategy to try to get China to concede more. Beijing feels that the US keep moving the goal posts and this is leading to frustration and distrust.

In the wake of the meeting, media headlines have defined the meeting as a resounding success, with some going so far as to say that a deal has been reached. Experts suggest that the meeting was positive, however no specifics were agreed other than that each side was prepared to ease market access restrictions. Trump has offered a 90 day reprieve during which time he will impose no further tariffs, however this comes with the ultimatum that if no deal has been reached within that time his prior tariff threat will be realised.

The Chinese delegation have made no mention of the 90 day grace period in their briefings to local media, separate media briefings allow both sides an opportunity to appease domestic audiences, something with which Xi is particularly concerned. Interestingly, while the Xi-Trump meeting has dominated the western media headlines over the past month and public speculation abounded, the Chinese state-run press barely made mention of it until the meeting was taking place.

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<sup>4</sup> Yang is also a member of the CPC Central Committee Politburo, a State Councilor, a member of the Leading Party Members Group of the State Council, and Director of the Office of the Central Leading Group for Safeguarding Maritime Rights and Interests

<sup>5</sup> Wei is also a State Councilor