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China-US rifts widen on eve of trade talks

In the wake of the sharp falls in the US stock market in December, partly over concerns about the trade conflict with China, US President Trump sought to massage the markets with the message that discussions were going well and he was confident of a deal.

However, in the lead up to the crucial meeting between US Trade Representative (USTR) Robert Lighthizer and China's Vice Premier Liu He in Washington on January 30-31, the wide gap between the sides was on view again this week.

The top-level meeting will be crucial in determining whether the US proceeds to impose a 25 percent tariff of \$200 billion worth of Chinese goods when a deadline for negotiations expires on March 1.

The *Financial Times* reported earlier this week that an offer by China to send two vice ministers to prepare the way for the meeting was turned down by the US. It said the reasons for the rejection of preliminary discussions were lack of progress on US allegations of "forced" technology transfers and its demands for "structural" changes in the Chinese economy related to subsidies for state-owned enterprises.

Larry Kudlow, the head of the National Economic Council, denied there had been any planned meeting and said the US was moving towards negotiations. But in an interview with the business channel CNBC on Tuesday, he emphasised the key US demands saying "enforcement" was crucial to the success of the talks.

"Promises are great but enforcement is what we want—things like deadlines and timetables and full coverage of the various structural issues." He emphasised that the end-of-the-month meeting would be "very important" and "determinative."

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According to the *Financial Times*, Chinese negotiators are maintaining their position that foreign companies are not forced to make technology transfers. Any agreements by US companies to do so are part of commercial agreements reached to ensure access to Chinese markets. They maintain that US demands on intellectual property should be covered by recent changes in Chinese laws.

The US has made it clear, however, that it will not be satisfied with changes in Chinese regulations. It will want to establish some kind of enforcement, or even inspection regime that would amount to a significant infringement of the authority of the Chinese government. The US is also not likely to be satisfied with the recent downplaying by Beijing of its “Made in China 2025” program for high-tech and industrial development which Washington regards as a threat to its economic and military dominance.

In his latest comments on the negotiations, Trump said “things were going very well with China” on trade and a deal “could very well happen” by the March 1 deadline. However, US Senator Chuck Grassley, a political ally of Trump, said he had been told in a briefing by Lighthizer that “there has not been any progress on the structural changes that need to be made.”

The demand that China roll back its state-backed industrial development was also the key issue raised in a joint report to the office of the US Trade Representative (USTR) by two major business organisations published in the *Wall Street Journal* on Tuesday.

In their submission, the US Chamber of Commerce and the American Chamber of Commerce in China said Beijing’s push to become a leader in global technology was being implemented. There was a “deep, concerted and continuing effort” by provincial officials to pursue the “Made in China 2025” plan despite the recent efforts of Chinese officials to downplay its significance.

The chambers’ report expressed some criticism of the widespread use of tariffs, noting the importance of the Chinese market for US firms. However, it emphasised support for the findings of last year’s report under section 301 of the Trade Act—the basis of Trump’s anti-China measures—on alleged Chinese intellectual property violations, technology transfers and state interventions in the economy. It said addressing these issues required “permanent, verifiable and enforceable solutions.”

The report said the “distortionary impact” of China’s industrial policies and the subsidies that underpin them were harming US interests. It indicated that the two business bodies would not be satisfied with a commitment by China to simply increase its purchases of US products.

“While reducing the trade deficit and purchases of US exports may be one aspect of the negotiations, we urge the US government to prioritize outcomes that address structural challenges posed by China’s economic policies and practices.”

Leading Democrats have also demanded that the Trump administration address the issue of China’s industrial and technological development and not settle on a deal that simply increases US exports.

In a statement to the *Financial Times* earlier this month, Richard Neal, the incoming Democratic chairman of the House Ways and Means Committee, which has oversight of US trade policy, said: “USTR has an obligation to look beyond the political pressures of the moment and easy, one-off transactions, and secure real and lasting change to China’s anti-competitive behaviour.”

In another indication of Democrat support for the position of the most hard-line anti-China hawks within the Trump administration, Ohio Senator Sherrod Brown told the newspaper that if Trump wanted to “fulfil his promise of getting tough on China, he needs to secure a deal that includes long-term structural reforms that will stop China’s unfair trade practices.”

The anti-China push is extending into the criminal justice system, the most immediate expression of which has been the detention of Huawei executive Meng Wanzhou in Canada on US demands that she be extradited to face charges that the company breached US sanctions against Iran.

The *Wall Street Journal* has reported that the US is seeking to “weaponize” its criminal courts against Huawei and other Chinese firms. The Trump administration is looking to use “indictments, along with export controls and other policy tools, as part of an arsenal to counter Chinese theft of trade and technology secrets, which US officials increasingly view as part of national security.” This is leading to a “more aggressive effort to turn corporate squabbles into criminal charges.”

The article followed the revelation that federal authorities are investigating the bringing of charges against Huawei following a conflict, involving the filing of civil suits, between the company and T-Mobile over the robotic technology.

On another front, members of the US Congress, both Democrat and Republican, have raised whether Huawei’s sales of solar panel equipment in the US could threaten the American electricity grid.

Tom Marino, a Pennsylvania Democrat, has written to the US Energy Secretary Rick Perry saying he was “concerned that the company’s entrance into large-scale and residential solar markets may pose a threat to our nation’s infrastructure.”

The deepening hostility to China across the entire US business and political establishment means that rather than the talks next week producing an agreement, they may well lead to a further escalation in the deepening economic and trade war.