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By Nick Beams
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Little prospect of agreement as US-China trade talks set to resume

Top-level talks between US and Chinese officials will resume in Washington on Thursday when a Chinese delegation, led by chief trade negotiator Vice-Premier Liu He, meets with US Treasury Secretary Steven Mnuchin and US Trade Representative Robert Lighthizer.

It will be the first high-level meeting since negotiations broke down last May when US President Trump slapped additional tariffs on Chinese goods claiming Beijing had backed away from a previous agreement.

However, there is virtually no prospect the discussions will bring about an agreement on the key US demands that China enter an all-encompassing deal to wind back its state subsidies and take action to meet US demands on intellectual property rights. There is considerable doubt that even a limited agreement can be reached to halt a further escalation in the tariff war.

In fact, the conflict is intensifying, with the Commerce Department announcing yesterday that it will restrict companies from exporting American goods to an additional 28 Chinese companies. They have been placed on its “entity list,” meaning that US firms have to obtain a special licence to sell to them.

The Chinese firms are involved in the development of surveillance mechanisms and artificial intelligence. The Commerce Department said they were acting “contrary to the national security or foreign policy interests of the United States.”

The latest US action is certain to harden the position of the Chinese negotiators with Bloomberg reporting that the mood in Beijing is increasingly against making any broad-based deal along the lines demanded by the US.

Citing people familiar with the situation, it said: "Chinese officials have indicated that the range of topics they are willing to discuss has narrowed considerably."

The Chinese side, the report said, was not prepared to talk about key US demands for changes to China's industrial policies, including government subsidies to key industries.

If no agreement is reached in the discussions, the US is set to go ahead with the raising of tariffs on $250 billion worth of Chinese goods from 25 percent to 30 percent on October 15.

Trump has stated on numerous occasions that he will only sign off an all-encompassing deal with China and he repeated that position in remarks last week.

"We've had good moments with China. We've had bad moments with China. Right now, we're in a very important stage in terms of possibly making a deal," he told reporters last Friday. "But what we're doing is negotiating a very tough deal. If the deal is not going to be 100 percent for us, we're not going to make it."

The possibility of a limited transitional deal was raised last month. This would involve increased purchases by China of US agricultural and energy products and the implementing by China of measures to protect intellectual property rights, to be followed by a partial reduction of US tariffs.

But any such limited agreement would be contingent on Beijing agreeing to negotiate on wider US demands, which appears to have been ruled out.

Furthermore, the prospect of even a partial deal has been thrown into doubt by Trump's decision to ask Beijing to investigate the dealings of Hunter Biden, son of the former US Vice President Joe Biden, in China.

While Trump has insisted that any investigation into Hunter Biden has "nothing to do" with the trade negotiations, the Democratic leadership, many of whom are even more hawkish than Trump on China, are already linking the two questions.

In response to Trump's call for a Chinese investigation, Democratic House speaker Nancy Pelosi tweeted: "What did [Trump] promise China in exchange for interfering in our election? An easier deal on trade? Ignoring crackdown on Hong Kong's pro-democracy movement? Condoning repression of religious freedom?"

Democratic Senator Sherrod Brown, a member of the Senate banking and finance committees, said: "It would be wrong for the president to go easy on China and deny workers a level playing field, in exchange for foreign interference in our democracy. That would be a betrayal of both workers and our values as a nation."

The demands of the Democrats have nothing to do with the defence of American workers. Rather they are articulating the position of the military and intelligence establishment that the US must take all measures necessary to block China's economic and technological development which is regarded as the greatest existential threat to the economic and military hegemony of the US.

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The prospect of a limited trade deal has also come under fire from other quarters. Rufus Yerxa, a former US trade official who heads the National Foreign Trade Council, said issues such as industrial subsidies "were the whole reason this case started in the first place. At a minimum the administration would have a lot of explaining to do if those drop off the table."

This week's discussions will take place amid an escalation rather than a contraction of trade war conflicts. The US is set to go ahead with the imposition of 25 percent tariffs on a range of European exports following a ruling from the World Trade Organisation that the European Union was in breach of WTO rules over state subsidies paid to the aircraft manufacturer Airbus which adversely affected the US firm Boeing.

France and Germany have both warned they will hit back against US measures and have said they will take action. The WTO is almost certain to rule that the US was in breach of subsidy rules because of tax breaks given to Boeing.

French Finance Minister Bruno Le Maire has called for negotiations on the issue and urged the US to listen to the "voice of reason."

"If the US administration refuses the hand held out by France and the EU, we stand ready to react through sanctions that would be within the framework of the WTO," he said.

German Foreign Minister Heiko Mass took the same position, warning that the EU "will now have to react and, once they have been approved by the WTO, impose its own punitive tariffs."

Germany is hoping for an agreement over the subsidies conflict. It fears EU retaliation could lead Trump to carry out his threat to impose a 25 percent tariff on cars and auto products on “national security” grounds that would have a devastating impact on its auto industry.

The escalation of trade conflicts and the impact it is having on manufacturing industry prompted the publication of a worried editorial in the *Financial Times* last week.

“The global economy is teetering on the edge,” it said. “It is still not clear whether it will tip over into outright recession or it merely heading for a period of stagnation.… Politicians need to look beyond their short-term national struggles towards the bigger picture of an international economy beginning to buckle under the weight of trade wars fought on multiple fronts.”

The editorial pointed to the slowdown in manufacturing around the world. While noting that the US had emerged relatively unscathed so far, it referred to the recent survey showing that its manufacturing sector had experienced its second consecutive month of contraction. The FT concluded that the “sugar high” from Trump’s corporate tax cuts had faded and the global weakness “is now dragging down the US economy too.”

Issuing a call for “cooler heads” to prevail, it urged decision-makers to “step away from the edge and de-escalate the trade conflicts” before it is too late.

However, there are no signs of such a movement.

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