

‘Bring Me Tariffs’—How Trump and Xi Drove Their Countries to the Brink of a Trade War

In the corridors of power, officials from the U.S. and China maneuvered and often miscalculated

By Bob Davis in Washington and Lingling Wei in Beijing

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On Sept. 21, Chinese President Xi Jinping convened an emergency meeting of two dozen top officials. The day before, the U.S. had taken Beijing by surprise by imposing sanctions on a research unit of the Chinese military, shortly after announcing tariffs on \$200 billion in Chinese imports. The Chinese didn't know how to respond.

Mr. Xi arranged the meeting so hastily that three of the seven members of the group's Standing Committee—China's final arbiter of power—couldn't attend because they were traveling, say individuals with knowledge of the discussions.

The party members, who gathered at the Zhongnanhai leadership compound in central Beijing, eventually concluded that a forceful counter was essential. China canceled impending trade talks in Washington, suspended a meeting with U.S. military officials and summoned the U.S. ambassador in Beijing to complain.

“There was no point in talking when the entire atmosphere was so poisonous,” recalls a senior Chinese official. In an interview Monday, President Trump responded: “I just want our country to be treated fairly.”

China and the U.S. are on the brink of a new Cold War, with tensions over trade at the top of the agenda. Both are erecting increasingly punitive tariff barriers on either side of the Pacific, putting into play their reputations on the world stage and the fate of major industries, from cars to cellphones to agriculture.

That the two countries arrived at this point, despite years of tension, wasn't inevitable.

Rather, it played out this year in the corridors of power in Washington and Beijing, with both maneuvering—and often miscalculating.

China's leaders misread Mr. Trump as a businessman first, rather than the politician whose fixation on trade had helped carry him into office. They mistook his Treasury secretary as the key interlocutor, not the White House hard-liners who truly had his ear. And they failed to

recognize the growing resentments in the U.S., and the world, about their own winner-take-all approach to trade and economics.

The Trump administration, for its part, found that ratcheting up pressure on China's leaders kept them off balance, but hasn't persuaded them, thus far, to change their policies. Picking fights with Europe, Japan and other allies over steel, aluminum and other issues undermined Mr. Trump's ability to rally international support. And strife between the moderates and hard-liners in his own administration made it difficult for the U.S. to forge a consistent strategy.

Messrs. Xi and Trump are preparing to meet in Buenos Aires on Saturday as part of the Group of 20 leaders summit. Both sides say they want a new trade deal. Mr. Trump is pressing for concessions that China is resisting.

This account is based on hundreds of interviews with government and business officials in both countries, including some who participated in internal discussions.

Economic relations between the two nations began souring long before Mr. Trump became president.



Treasury Secretary Steven Mnuchin, center, and Commerce Secretary Wilbur Ross, right, met Chinese officials in Beijing in May.
PHOTO: NICOLAS ASFOURI/AGENCE FRANCE-PRESSE/GETTY IMAGES

After China joined the World Trade Organization in 2001, it began amassing huge trade surpluses with the U.S. American officials complained China didn't open its markets enough in return. Under President Xi, Beijing increased the government's role in the economy, supporting state-owned firms with loans from government-run banks and increasing pressure on U.S. firms to hand over their technology.

In February 2015, nearly half of the Western companies surveyed by the American Chamber of Commerce in China felt they were less welcome than a year earlier.

Cui Tiankai, China's ambassador to the U.S., blamed U.S. companies for not adapting to China's increasingly competitive marketplace. "Maybe the days of so-called easy money in China are gone," he said.

The U.S. began taking a more confrontational approach to China at the end of the Obama administration. Mr. Obama pressed Mr. Xi on cybertheft and China's military buildup in the South China Sea, and negotiated a trade deal with other Asian nations to contain China as a regional power.

Chinese leaders rejected U.S. complaints that it pressured U.S. firms to hand over technology and denounced the U.S. for trying to contain its rise. Under Mr. Xi's banner of China Dream, the government rolled out domestic and foreign-policy initiatives that challenged U.S. dominance, including a state-led effort to boost high-tech industries and the "Belt and Road" program to project economic influence across Eurasia and Africa.

'They listened very carefully'

Chinese officials thought they had sized up Mr. Trump: He was a businessman and pragmatist, a deal maker with whom they could negotiate. His family-run business empire looked familiar in a region where family conglomerates were common. "He's transactional," said one Chinese official earlier this year.

Mr. Trump had lashed out at China in his campaign, tapping into resentment in manufacturing communities hit hard by imports. Chinese leaders were inclined to discount such campaign rhetoric.

Before his inauguration, Mr. Trump's campaign met with various China experts, including Henry Kissinger, who then communicated with Chinese officials.

"Everything is on the table," Mr. Kissinger told Chinese leaders after he conferred with the president-elect—a message that the U.S. was open to negotiate on many issues, say Trump officials from that time. Mr. Xi told Mr. Kissinger he wanted to meet Mr. Trump one-on-one, laying the groundwork for a later summit at Mr. Trump's Mar-a-Lago golf resort.

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The atmosphere chilled in early December 2016, when Mr. Trump took a phone call from Taiwan President Tsai Ing-wen. It was the first time in nearly four decades an incoming president had talked to the leader of what Beijing considers a renegade province.

In discussions with the Chinese, the Trump team portrayed the call as a mistake, a new administration learning the nuances of foreign policy. After consulting again with Mr. Kissinger, Trump officials decided not to meet with the Dalai Lama, the Tibetan religious leader whom China views as an enemy. They also arranged a meeting with Yang Jiechi, China's most senior

foreign-policy official.

In New York, Mr. Yang and Ambassador Cui lectured Trump representatives that “the territorial integrity of China is not to be questioned,” says Steve Bannon, Mr. Trump’s former chief strategist, who attended the meeting.

Recalls Mr. Cui: “The Trump people at the time, they listened very carefully to us.”

Mr. Bannon, who sees China as an existential threat to the U.S., says he found the sessions “incredibly condescending.”

Shortly afterward, Mr. Bannon put together a China strategy group. Concerned that Chinese intelligence was monitoring Trump Tower, the group didn’t send drafts of their China report electronically. They agreed the new administration should pressure China on economic and security issues, while continuing high-level contacts.

Early on, Mr. Trump’s priority was getting help pressuring North Korea to give up nuclear weapons. In an effort to woo China, he broke his campaign pledge to label China a currency manipulator.

“I was doing North Korea and I didn’t want to let the negotiations come in the way,” Mr. Trump said in the interview.

In April 2017, Messrs. Trump and Xi met at Mar-a-Lago. The two leaders announced a framework for a 100-day plan they said could ease economic strains. Commerce Secretary Wilbur Ross would take the lead negotiating for the U.S., and Wang Yang, then a vice premier known for backing economic reform, would lead the Chinese side.

That summer, Mr. Trump delayed announcing an investigation into Chinese trade practices for fear of losing Chinese support on North Korea, say administration officials. When he finally decided to launch the investigation, they say, he didn’t want to single out China, even though the probe was aimed specifically at alleged Chinese trade abuses.

“I don’t want to target China,” aides recall him saying. “Let’s leave China out of it.”

In the White House ceremony announcing the investigation, Mr. Trump mentioned China just once.

‘They’re playing you’

Central to the talks between Messrs. Ross and Wang were U.S. complaints that inexpensive Chinese steel was flooding global markets and putting U.S. steelworkers out of jobs. The motto of Mr. Ross’s negotiating team, says a former Trump official, was “no steel, no deal.”

After months of negotiations, say U.S. officials, Beijing agreed to reduce production, as it had promised before, but at a faster pace. Chinese officials considered offering to open markets further to overseas financial firms, but decided against it, figuring they had offered enough.

Back in Washington, Mr. Ross's package landed with a thud, seen as little more than a repackaging of past unfulfilled promises. Shortly before Mr. Ross was to meet Mr. Wang and other Chinese officials for drinks to celebrate the deal, he met with Mr. Trump in the Oval Office.

"Shut it down," the president told him about the talks.

Negotiations ended, as did Mr. Ross's role as top U.S. representative, although an administration official says he remains part of the China negotiating team. Mr. Wang was promoted to a different position late that year.

To Mr. Trump and some advisers, the busted negotiation was evidence Beijing wanted to hook the U.S. into endless talks that led to few concrete results. To Beijing, it demonstrated the difficulty of dealing with the new administration. Chinese officials grilled foreign visitors about who really had Mr. Trump's ear.

Four months later, when Mr. Trump flew to China for a state visit, Mr. Xi personally guiding him and first lady Melania Trump around Beijing's Forbidden City. The charm offensive flopped.



During a state visit to China in November 2017, Donald Trump and Xi Jinping visited the Forbidden City. PHOTO: JONATHAN ERNST/REUTERS

Mr. Trump had chosen U.S. Trade Representative Robert Lighthizer to present U.S. trade complaints to the Chinese leader. Mr. Lighthizer, a former Ohio steel-industry lawyer who resented how Chinese imports had battered his industrial clients, talked so bluntly that some in Mr. Xi's entourage say they were offended. Mr. Ross sat outside the meeting room, the Chinese noted, waiting to be consulted.

Chinese officials wanted to use one of Mr. Trump's meetings at the Great Hall of the People to offer foreign firms greater access to China's banking, securities and insurance sectors. The U.S. dismissed the idea as too little and too late.

"They're playing you," Mr. Lighthizer advised the president, according to participants.

Hours after Air Force One took off from Beijing, China announced the financial sector openings on its own. Beijing pledged to raise to 51%, from 49%, how much ownership foreign firms could take in Chinese securities ventures, among other things.

To date, no U.S. securities firm has received approval to expand in China. That has become a talking point for trade hawks in the administration who argue Beijing doesn't follow through on promises.

'Bring me tariffs'

In early April, Mr. Trump threatened to levy his first major round of tariffs on China, targeting \$50 billion in imports. Treasury Secretary Steven Mnuchin spoke by phone with China's Vice Premier Liu He to arrange a meeting in Beijing. Mr. Mnuchin was pushing for a deal while hawks in the Trump administration wanted a tougher stance.



Vice Premier Liu He, a 66-year-old economist, has been an important behind-the-scenes player for China. PHOTO: CLEMENS BILAN/EPA-EFE/REX/SHUTTERSTOCK

President Trump approved the trade mission, over Mr. Lighthizer's opposition. As a compromise, the president filled out the U.S. team with Mr. Lighthizer and White House trade adviser Peter Navarro, whose book "Death by China" made him a reviled figure in Beijing.

On the first day of talks, Mr. Lighthizer presented U.S. demands in an eight-section document that called on China to reduce its \$375 billion trade surplus with the U.S. by \$200 billion within two years, to scrap policies and subsidies that supported favored industries, and to pledge not to retaliate if the U.S. imposed tariffs.

It was "surrender or die," says Erin Ennis, senior vice president of the U.S.-China Business Council, a trade association of large U.S. firms.

On the second day, divisions within Mr. Trump's team spilled into the open.

Mr. Mnuchin, the head of the U.S. delegation, had arranged a one-on-one session with Vice Premier Liu. Mr. Navarro confronted the Treasury secretary on the lawn of the Diaoyutai State Guest House, accusing him of a power grab. Confused Chinese officials watched from a distance.

When Chinese officials turned to Mr. Lighthizer in subsequent sessions, participants recall, he often replied, “I have nothing to say.” That led some in the two delegations to wonder whether he was there to negotiate, or to watch over Mr. Mnuchin.

Internal U.S. squabbling continued on the Air Force jet carrying the group home. During the flight, the White House released a terse statement about “frank discussions” and the need for the team to consult with Mr. Trump.

Messrs. Liu and Mnuchin met again a few weeks later and publicly declared a truce in May.

In White House meetings, Mr. Trump went the other way, say U.S. officials, telling his advisers: “Bring me tariffs.”

On June 15, the U.S. announced it would impose 25% tariffs on \$50 billion of Chinese goods, in two steps, mainly components and industrial machinery. China said it would retaliate dollar-for-dollar, hitting soybeans and other U.S. agriculture. Three days later, Mr. Trump directed aides to identify more Chinese goods for tariffs.

Mr. Liu’s team spent the next few months analyzing the eight-section U.S. document, categorizing its demands into 142 separate items, of which the Chinese said they would consider negotiating 122. Mr. Liu delayed telling Washington what was on its list or what it was willing to negotiate.

Warring camps

A pattern emerged. Mr. Trump threatened tariffs on Chinese goods. Chinese and American negotiators huddled. Negotiations failed. The U.S. imposed the tariffs—now covering half of China’s \$500 billion in U.S. imports—and China, which imports far less, retaliated.

Three men became key behind-the-scenes players: Mr. Liu for China and Messrs. Lighthizer and Mnuchin for the U.S.

Mr. Liu, a 66-year-old economist, is one of four vice premiers. He has known Mr. Xi since childhood. Earlier in his career, he cemented his reputation in the West as a reformer when he met with U.S. economists and told them the U.S. could pressure Beijing to open its economy more. Now he is in charge of policy-making for the Chinese economy, although U.S. negotiators wondered whether he had the clout to push through changes.

Mr. Lighthizer appealed to the president’s blue-collar leanings, which led him to believe China had ripped off the U.S. and needed to be punished. In White House meetings, Mr. Lighthizer sometimes said Beijing was getting even for the Opium Wars between Britain and China in the 1800s by shipping fentanyl to America. (China has denied it is a major supplier.)

He saw tariffs not only as a tool for the trade battle, but also to prod U.S. industries to shift investment away from China and slow China’s technological advance.

Mr. Mnuchin, a former Goldman Sachs Group Inc. executive, saw himself as the



U.S. Trade Representative Robert Lighthizer spoke so bluntly in one meeting with Chinese officials that some in the delegation say they were offended. PHOTO: KEVIN LAMARQUE/REUTERS

administration’s chief financial officer, with wide latitude to take initiatives, allies say. That put him close to Mr. Trump the businessman, who often telephoned CEOs who did business in China— Blackstone Group LP’s Stephen Schwarzman and Wynn Resorts founder Steve Wynn—who urged him to cut a deal.

Mr. Mnuchin sought advice from his former Goldman boss, Hank Paulson, a George W. Bush Treasury secretary who counted senior Chinese leaders as friends. Mr. Paulson talked or met with Mr. Mnuchin 11 times through March 31 of this year, according to government calendars, but not once with Mr. Lighthizer. A Treasury official says Mr. Mnuchin consulted Mr. Paulson on a variety of subjects, including Treasury’s role in setting China policy.

Time and again, Chinese officials turned to Mr. Mnuchin for a path to Mr. Trump. Time and again, Mr. Lighthizer’s views won out.

‘Serve as a bridge between our two governments’

Since the 1980s, China has counted on U.S. corporate leaders to push back against pressure from Washington. Lobbying by executives helped limit sanctions after the Tiananmen Square massacre in 1989 and to win support for China’s WTO entry.

One of Mr. Xi’s advisers, 70-year-old Wang Qishan, China’s vice president, considers himself an expert on the West. In the 1990s, when he was head of the state-owned China Construction Bank, he worked with Mr. Paulson. He tells visitors about his love of Mark Twain and Jack London novels and the Netflix drama “House of Cards.”

When he met with U.S. executives in Beijing early this year, he cited ancient Chinese military strategist Sun Tzu: “If you know the enemy and yourself, you need not fear the result of a hundred battles.” China understood the U.S. better than the other way around, Mr. Wang told them, and would be willing to endure far more pain rather than concede.

That might have been a misjudgment. U.S. business groups, which told the White House tariffs make it harder to do business, had little impact on an administration that wanted U.S. companies to pull up stakes in China. It had renegotiated the North American Free Trade Agreement, in part, to make Mexico an investment alternative.

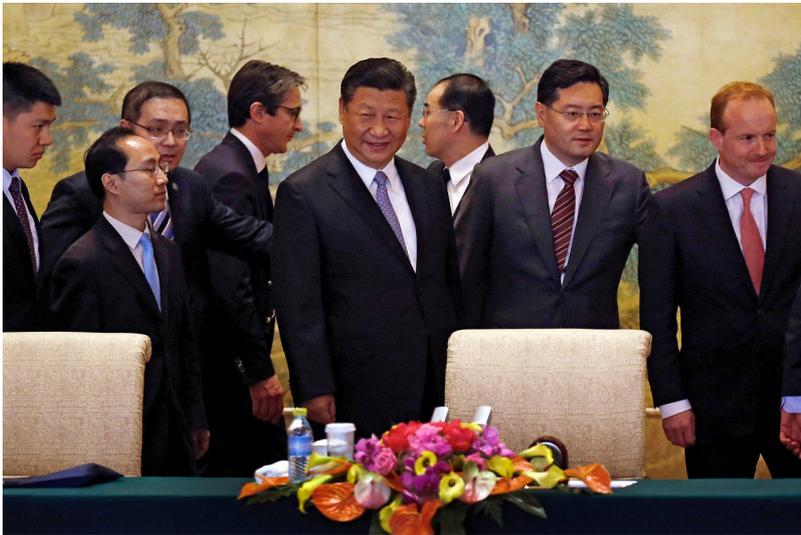
Three big Washington trade groups that have led nearly every free-trade battle in Washington—the Business Roundtable, the U.S. Chamber of Commerce and the National Association of Manufacturers—were now calling for changes in Chinese industrial policies, fed up with alleged theft of technology secrets.

China's Commerce ministry dispatched agents around the country to quiz U.S. firms about their plans and to persuade them to stay put. Changes were on the horizon, Beijing made clear, including tariff cuts and reduced regulation. Officials emphasized easing restrictions for foreign auto companies—a promise Mr. Xi made in April.

“All these things are what China has intended to do all along,” says a senior policy maker in Beijing. “Trump helped speed things up a bit.”

In June, Mr. Xi gathered a group of 20 CEOs from foreign firms such as Goldman Sachs and Hyatt Hotels Corp. to warn them they could be caught in the crossfire of a trade war.

“In the West, you have the notion that if somebody hits you on the left cheek, you turn the other cheek,” he told the foreign executives, according to people familiar with the session. “In our culture we punch back.”



Xi Jinping met with global CEOs in Beijing in June. PHOTO: ANDY WONG/EPA-EFE/REX/SHUTTERSTOCK

At the end of the gathering, his frustration boiled over. “We respect your democratic system,” the Chinese leader said, according to people familiar with the session.

“Why can’t you respect ours?”

In August, China Vice Minister of Commerce Wang Shouwen flew to Washington and met representatives of a dozen big U.S. companies. “Serve as a bridge between our two governments instead of a wedge,” he told them, according to participants. “You may have frustrations and concerns, but I hope you won’t exaggerate those issues.”

Intel Corp. Vice President Peter Cleveland told Mr. Wang that Intel was committed to China for the long term. But he urged China to make some of the changes the U.S. sought, including easing government pressure on U.S. firms to transfer technology to their Chinese partners, according to people who attended the session.

International Business Machines Corp. Vice President Chris Padilla told Mr. Wang that unless the trade fight ended, his company would have to consider shifting its purchases elsewhere, according to the people who attended. Once that started, it would be tough to move it back.

IBM and Intel declined to comment.

‘We are under no pressure to make a deal’

In Beijing, the government settled in for a long battle. China’s economy was slowing, which had the potential to stir resentment against one-party rule and weaken the government’s negotiating position with the U.S.

Mr. Xi resisted making changes the U.S. demanded, including reducing subsidies to state firms and scaling back state-led industrial policy. He traveled to the northeast, China’s Rust Belt, to call on the nation to become more self-reliant.

Chinese leaders made an effort to divide U.S. allies over the trade issues, and met this year in Beijing with the leaders of the European Union, France, Germany and Japan. The U.S., EU and Japan, however, have been meeting to see whether they can build common positions against Chinese subsidies and technology transfer, and to press those issues at the WTO.

In late August, the U.S. held hearings on its plan to impose tariffs of as much as 25% on \$200 billion of Chinese goods, one of the last steps before imposing the duties. Beijing pledged to match U.S. tariffs, but couldn’t equal that total. China imported \$130 billion in goods from the U.S., and needed U.S. semiconductors and software.

Chinese leaders again decided to seek a settlement. Encouraged by Blackstone’s Mr. Schwarzman, they requested a meeting with Mr. Mnuchin, offering to send Mr. Liu—once again—to Washington.

As part of the diplomatic minuet of arranging such sessions, the Chinese side wanted to be invited. In an Oval Office session in September, Mr. Trump dictated to the Treasury secretary how such a letter should read.

Shortly before midnight on Sept. 12, the Journal reported the U.S. had invited Mr. Liu. A few hours later, China’s foreign ministry confirmed the invite.

The report infuriated the president, his aides say, because it appeared he was asking for the meeting, and was weak. At 7:15 the next morning, Mr. Trump tweeted: “The Wall Street Journal has it wrong, we are under no pressure to make a deal with China.”

Plans for the meeting started unraveling, officials from both countries say. “I don’t really care” whether the Chinese come, Mr. Trump said in meetings with his trade advisers.

Mr. Trump said in the interview he disagreed with Mr. Mnuchin on the prospects for a settlement. The Chinese “were not ready to make a deal,” he said.

He did accept a proposal by Mr. Mnuchin to limit new tariffs to 10% through the end of the year, before jumping to 25%, the rate the U.S. had already imposed on other goods. That would limit the impact on U.S. retailers before Christmas, Mr. Mnuchin argued, and would set a new deadline that could prompt fresh talks.

On Sept. 17, a week before Mr. Liu was scheduled to arrive in Washington, the White House announced the tariffs. That surprised the Chinese, who had thought Washington would delay the decision until after the talks.

On Sept. 21, Mr. Xi held his emergency Politburo session and canceled Mr. Liu’s trip. When the U.S. put new tariffs in place three days later, China responded with new tariffs of its own.

On to Buenos Aires

China’s leaders wanted to see what happened in the U.S. midterm elections. If President Trump’s party took a drubbing, they figured, perhaps he would soften his positions on China. When Republicans held on to their Senate majority, however, Mr. Trump declared victory.

As Messrs. Trump and Xi prepare to meet in Buenos Aires on Saturday, officials from both countries are examining the possibility of delaying higher U.S. tariffs until the spring, and launching new talks about Chinese economic policy. Mr. Trump had said Monday that it is “highly unlikely” he will hold off on tariffs.

Beijing this month sent U.S. officials an outline of economic-policy changes it might consider. The offer repeats many existing pledges, such as removing caps on foreign investments in autos and financial services, officials on both sides say.

Mr. Trump’s team is pressing for more details and deeper changes.

Looking for clues about what the White House is up to, Chinese officials pored over an October speech by Vice President Mike Pence in which he accused China of offenses ranging from abusing its economic power to militarizing the South China Sea. They debated whether the speech represents a broader U.S. strategy to contain China’s rise or is a negotiating tactic aimed at further pressuring Beijing.

The Chinese still aren’t sure which Trump will show up when the two leaders get together—the leader who surprised China with his determination to see tariffs through, or the deal maker Chinese leaders thought they knew.

—*Peter Nicholas contributed to this article.*

Corrections & Amplifications

The Peterson Institute for International Economics was incorrectly referred to as Petersons Institute in a graphic accompanying an earlier version of this article. (Nov. 28, 2018)

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