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WORLD

# U.S., China Face Thorny Obstacles to Lasting Trade Peace

A truce postponing added tariffs gives the two nations about three months to resolve issues that have long divided them

*By Bob Davis*

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BUENOS AIRES—The trade truce between the U.S. and China calms their economic battle and opens a brief window for the two nations to explore whether they can bridge deep divides on a range of difficult disputes.

After a weekend dinner between President Trump and Chinese President Xi Jinping at a Group of 20 summit here, the U.S. postponed its threat to increase tariffs on \$200 billion in Chinese goods to 25% from 10%. But it set a timeline of only about three months for the two sides to negotiate several issues that have proved largely intractable in the past.

In a tweet Sunday night, Mr. Trump said China agreed to cut tariffs on American cars. “China has agreed to reduce and remove tariffs on cars coming into China from the U.S. Currently the tariff is 40%,” Mr. Trump said. China cut its tariff on non-U.S. imported vehicles from 25% to 15% in July. But within days it increased its tariff on cars made in the U.S. to 40% in retaliation for new U.S. tariffs on vehicle imports.

Issues still on the table include forced technology transfer by U.S. companies doing business in China; intellectual-property protection that the U.S. wants China to strengthen; nontariff barriers that impede U.S. access to Chinese markets; and cyberespionage.

In a sign of the difficulty of the talks ahead, Chinese officials haven’t acknowledged they accept the U.S. negotiating agenda or any deadline for talks. Nor is it clear what accommodation on any or all of the issues would prove sufficient to hold off the U.S. from raising tariffs when its deadline expires.

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## The China Challenge

The Trump administration agreed to a 90-day delay in implementing a tougher tariff regime on Chinese imports, creating a window to negotiate solutions to a series of complicated issues. Here are the five biggest:

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U.S. officials want China to stop forcing U.S. companies to share cutting-edge technology as a condition for entering the Chinese market, often by forcing them to form joint ventures with local partners.

There are also irritants in the relationship—such as China’s claims to, and construction on islands in, the South China Sea—which are high priorities for the Pentagon and U.S. national-security officials but which aren’t on the U.S. negotiating agenda and show little prospect of near-term resolution even if a trade deal is reached.

U.S. officials said that both countries sought a cease-fire because of concerns that tariff hikes would hurt their economies and markets. Their economies are bound to play an outsize role in what the negotiations resolve, as well—and prompt fierce lobbying from companies and business organizations with sales at stake.

“If the economy slows down, it’s very unlikely U.S. will ever ratchet up tariffs,” said David Dollar, a Brookings Institution China scholar who was the Treasury Department’s representative in Beijing in the Obama administration. “But if the U.S. economy is roaring and the negotiations are especially frustrating, 90 days from now we could be headed into a serious trade war.”



There are irritants in the U.S.-China relationship beyond trade, such as China’s claims to, and construction on islands in, the South China Sea. Above, a U.S. guided-missile destroyer last month. PHOTO: ANTHONY WALLACE/AGENCE FRANCE-PRESSE/GETTY IMAGES

From Beijing’s perspective, the truce provides some immediate relief for policy makers, who have been grappling with slowing economic growth—in part from the impact of the tit-for-tat tariffs the two nations have imposed—and an accompanying jolt to public confidence.

Within the Trump administration, the deal did little to paper over divides. For instance, it isn’t clear who will handle negotiations with China. In similar deals involving the European Union and Japan, U.S. Trade Representative Robert Lighthizer took control of the talks.

With China, a group headed by Treasury undersecretary David Malpass has been leading the discussions and may still retain responsibility, said some officials. Mr. Lighthizer is far more skeptical about China than Treasury officials and less willing to compromise.

White House adviser Jared Kushner, Mr. Trump’s son-in-law, argued to give Mr. Lighthizer a larger role in China negotiations than he has played in prior rounds, said people briefed on the talks. That gave Mr. Trump greater confidence that he would have an experienced negotiator involved, one who has focused on technology transfer and intellectual property protection.



After a weekend dinner between President Trump and Chinese President Xi Jinping in Buenos Aires, the U.S. postponed its threat to increase tariffs on \$200 billion in Chinese goods. PHOTO: PABLO MARTINEZ MONSIVAIS/ASSOCIATED PRESS

Before Mr. Trump and Mr. Xi sat down for dinner on Saturday night, each surrounded by eight top aides, Mr. Lighthizer had issued two rebukes of Beijing. Last Wednesday, his office released a statement bashing China’s industrial policies, and a week earlier ripped Beijing for using cybertheft and government pressure to illicitly obtain U.S. technology.

“Lighthizer was trying to get the president from going further and rolling back tariffs,” said Derek Scissors, an American Enterprise Institute China expert who consults with the administration. “He didn’t want the president to get caught up in the moment with his friend Xi.” The U.S. Trade Representative’s office declined to comment.

For the Chinese, Vice Premier Liu He, who is Mr. Xi's economic envoy, will continue as top negotiator. He is considering leading a 30-member delegation to Washington in the coming weeks, according to people familiar with the matter.

In Buenos Aires, Beijing pledged to give U.S. firms greater access to Chinese markets, saying that is in line with China's commitment to continued economic liberalization. But in the past, Beijing hasn't meaningfully fulfilled such market-opening promises because of resistance from those with a stake in the status quo, such as state-owned firms.

This time around, China is willing to consider putting in place a mechanism to measure its progress, the people said.

In Buenos Aires, U.S. officials were nearly uniformly critical of the Chinese responses leading up to Saturday's dinner. But when the two leaders met, the atmosphere changed. The Chinese spent the first half-hour discussing their offer to the U.S. on trade and other matters, said people briefed on the talks. Discussions were friendly and devoid of threats, the people said.

The U.S. said China agreed to buy more agricultural products, help with getting North Korea to give up nuclear weapons and crack down on the export of fentanyl, the heavily addictive opioid.

Mr. Trump was especially pleased with Chinese offers to buy more agricultural products, the people said. Farmers have been hit hard by Chinese tariffs on their crops.



The U.S. said China agreed to buy more agricultural products. Above, corn and soybeans last month at Gingerich Farms in Lovington, Ill. PHOTO: DANIEL ACKER/BLOOMBERG NEWS

A White House statement afterward focused on fentanyl, which is a problem that has attracted bipartisan attention in Congress and affects many of the predominantly white rural areas that back Mr. Trump.

“This is an important breakthrough that will help save lives but this commitment must be followed by diligent implementation by the Chinese government,” said Sen. Jeanne Shaheen (D., N.H.).

The U.S. also said that Mr. Xi agreed to consider again the previously unapproved merger between Qualcomm Inc. and NXP Semiconductors NV, should the deal be presented. Chinese officials at a press briefing didn't mention that pledge, and the companies haven't expressed any interest in trying to revive the merger, which fell apart after the Chinese inaction.

Reaction to the deal was positive from wide swaths of industry, which feared that additional tariffs would undermine their competitiveness and drive away consumers.

“The administration's decision to give diplomacy a chance and at least temporarily avoid the imposition of increased and additional tariffs is an encouraging sign,” said the National Retail Federation, a trade group.

But Mr. Trump is bound to face criticism over his tactics. “President Xi has successfully slow-walked President Trump,” said Peter Morici, a University of Maryland economist who takes a hard line on China. “The president has fallen into the same trap as Barack Obama, George W. Bush and even Bill Clinton. He will get more platitudes and promises and very few results.”

Sen. Roy Blunt, a Missouri Republican, offered a cautious assessment. Soybean sales, important to his state, “have gone to virtually zero” because of tariffs imposed by China, he said on Fox News Sunday. But he said “the president’s goal, to get China in a better and fairer place in trade, is the right goal.”

The U.S.-China trade fight dominated the G-20 summit. Members issued a joint statement that affirms the importance of the multilateral trading system. Such statements were once routine, but they have become a struggle in recent months, with the Trump administration questioning the basic tenets of multilateral gatherings.

The potential for a truce in the U.S.-China trade dispute gave a boost to the effort to arrive at a joint statement, said a European Union official, adding that the members didn’t want to spoil the mood before the Xi-Trump dinner, which occurred after the meeting ended.

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