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WORLD

## Why China Decided to Play Hardball in Trade Talks

Chinese negotiators emboldened by perception U.S. was willing to compromise



Chinese President Xi Jinping, left, with President Trump last month at a ceremony in Beijing. PHOTO: NICOLAS ASFOURI/AGENCE FRANCE-PRESSE/GETTY IMAGES

*By Lingling Wei in Beijing and Bob Davis in Washington*

Updated May 8, 2019 9:20 p.m. ET

The new hard line taken by China in trade talks—surprising the White House and threatening to derail negotiations—came after Beijing interpreted recent statements and actions by President Trump as a sign the U.S. was ready to make concessions, said people familiar with the thinking of the Chinese side.

High-level negotiations are scheduled to resume Thursday in Washington, but the expectations and the stakes have changed significantly. A week ago, the assumption was that negotiators would be closing the deal. Now, they are trying to keep it from collapsing.

Adding to the pressure, the U.S. formally filed paperwork Wednesday to raise tariffs on \$200 billion of Chinese goods to 25% from the current 10% at 12:01 a.m. Friday. Beijing's Commerce Ministry responded by threatening to take unspecified countermeasures. At a campaign rally in Florida Wednesday night, Mr. Trump said Chinese leaders "broke the deal" in trade talks with the U.S.

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In the current negotiations, the U.S. thought China agreed to detail the laws it would change to implement the trade deal under negotiation. Beijing said it had no intention of doing so, triggering Mr. Trump's threat Sunday to escalate tariffs and bringing the dispute into the open.

The hardened battle lines were prompted by Beijing's decision to take a more aggressive stance in negotiations, according to the people following the talks. They said Beijing was emboldened by the perception that the U.S. was ready to compromise.

In particular, these people said, Mr. Trump's hectoring of Federal Reserve Chairman Jerome Powell to cut interest rates was seen in Beijing as evidence that the president thought the U.S. economy was more fragile than he claimed.

Beijing was further encouraged by Mr. Trump's frequent claim of friendship with Chinese President Xi Jinping and by Mr. Trump's praise for Chinese Vice Premier Liu He for pledging to buy more U.S. soybeans.

An April 30 tweet, in which Mr. Trump coupled criticism of Mr. Powell with praise of Chinese economic policy, especially caught the eye of senior officials. "China is adding great stimulus to its economy while at the same time keeping interest rates low," Mr. Trump tweeted. "Our Federal Reserve has incessantly lifted interest rates."

"Why would you be constantly asking the Fed to lower rates if your economy is not turning weak," said Mei Xinyu, an analyst at a think tank affiliated with China's Commerce Ministry. If the U.S.'s resolve was weakening, the thinking in Beijing went, the U.S. would be more willing to cut a deal, even if Beijing hardened its positions.

That assessment, however, flies in the face of a strong U.S. economy. Gross domestic product in the first quarter rebounded from the end of 2018, with growth clocking in at a seasonally adjusted annualized rate of 3.2%, up from 2.2% the prior quarter. The jobs report for April, released on Friday, showed the unemployment rate falling to 3.6%, the lowest in nearly 50 years.

But at the same time, China's economy has stabilized this year following months of weakness. Although China's exports dropped unexpectedly in April, its first-quarter growth came in at

6.4%, beating market expectations. The generally improving economic picture gave Beijing more confidence in trade talks, as did a recent conference on the country's vast infrastructure-spending program, called the Belt and Road Initiative, which was attended by about 40 heads of government and state.

Chinese leaders saw the conference turnout "as China has more leverage to improve relations with other countries and with the U.S. business community," said Brookings Institution China specialist Cheng Li. "It made them play hardball."

If China misread the signals—and vice versa—it wouldn't be the first time.

The history of U.S.-China trade negotiations is filled with misunderstandings, as the two nations, with very different political systems, struggle to figure out each other's intentions.

When China was negotiating to join the World Trade Organization in the late 1990s, for instance, China's premier visited Washington mistakenly expecting then-President Clinton to approve a deal. At the end of negotiations in Beijing, then-U.S. Trade Representative Charlene Barshefsky walked out on the talks, convinced that Beijing was jerking her around, only to come back and finish the deal.

"China has often pushed back on specific commitments during the negotiations," said Clete Willems, who recently left as White House trade negotiator to take a job at the law firm of Akin Gump. "These are difficult things to undertake, but critical to a successful outcome."

In addition to the tariff increase slated for Friday, Mr. Trump has also said he plans to "shortly" levy new 25% tariffs on \$325 billion of Chinese goods, a move that would widely affect consumer goods.

The aggressive U.S. response initially cast doubt on a trip by Mr. Liu to Washington this week. Mr. Liu is now scheduled to lead talks beginning Thursday, a day later than originally planned. He is scheduled to have a one-on-one dinner with U.S. Trade Representative Robert Lighthizer Thursday.

Unlike prior visits, Mr. Liu wasn't given the title of Mr. Xi's "special envoy," suggesting that he doesn't have the power to make significant compromises. The Chinese delegation has also been slimmed down from the 100-plus team originally planned, although the entourage will also include Commerce Vice Minister Wang Shouwen and Finance Vice Minister Liao Min.

In another apparent sign of mixed signals, Trump administration officials had thought they had made it clear that they were weary of negotiations and that it was time for Beijing to make

specific commitments to change laws, including adding protections for intellectual property and barring the forced transfer of U.S. technology.

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Comments last week by Mick Mulvaney, the president's acting chief of staff, were supposed to drill home that notion. The talks "won't go on forever," he said in Los Angeles. "At some point in any negotiation you go, 'We're close to getting something done so we're going to keep going.' On the other hand, at some point you throw up your hands and say, 'This is never

going anywhere.'"

But at the same conference, Treasury Secretary Steven Mnuchin sent the opposite signal, saying the talks were "getting into the final laps."

As talks resume Thursday, one big question mark is whether China will agree to U.S. demands for changes in Chinese law to implement the trade deal. Beijing maintains this would impinge on Chinese sovereignty and take too long to implement, but Beijing had made similar commitments in prior trade deals, including those it signed to join the WTO in 2001.

U.S. officials say Beijing has failed to make good on those commitments, while China has promised to further liberalize its economy.

"The U.S. is correct to seek a multiprong approach of not relying solely on commitments but also actually changes to the laws, so as to ensure Chinese leadership intentions are fully conveyed down to all local levels of government," said Harvard Law Professor Mark Wu.

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*Appeared in the May 9, 2019, print edition as 'Beijing Hardens Stance On Trade.'*