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P+ Exclusive Meeting Highlights: Chris Adams and Tim Stratford of Covington & Burling

On August 31, 2018, Chris Adams, Senior Advisor of the Covington & Burling DC office (formerly with the US Department of the Treasury), and Tim Stratford, Managing Partner of the Covington & Burling Beijing office (formerly of USTR), shared their views on the current US-China trade frictions and on factors that might hinder the ongoing trade negotiations. The below highlights some of the main points discussed in this off-the-record event.

Key Takeaways

There has been minimal progress in US-China trade negotiations because interactions between the US and China at the higher level have been very limited.

Both sides have underestimated each other's ability to endure the pain from the trade conflicts and perhaps have misunderstood, or not been completely clear, with what exactly it is that they want from the other side.

It appears that the trade disputes will not be resolved any time soon.

Background

Trade talks between the US and China seemed to not make significant progress when Chinese Commerce Vice Minister Wang Shouwen and his US counterpart, US Treasury Under Secretary David Malpass, concluded the third round of talks with no breakthroughs on August 23. The world is now awaiting the White House's announcement on when and how a proposed additional \$200 billion in tariffs will be implemented on Chinese goods ([reportedly](#) at least a portion of which could be expected later this week). If enacted, this would be the third round of the tariffs to take effect.

Meanwhile, the US economy shows no signs of slowing down, potentially further emboldening Trump to move full steam ahead with additional tariffs. With an estimated 4.2% GDP growth for the second quarter this year, many predict the US is well-positioned to hit the Trump administration's target goal of 3% annual growth. However, this economic data may not yet demonstrate the potential impact that ongoing trade frictions may on the US economy.

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Insights

Why has there been minimal progress in US-China trade talks?

- ◆ *Interactions between the US and China at the higher level have been very limited.* President Xi and Trump have not met in person following their state dinner in Beijing last November. Even though both presidents claim to have a strong personal relationship, the countries are increasingly far apart when it comes to trade. Moreover, President Trump recently announced that US Vice President Mike Pence will stand in for him at the upcoming series of summits such as the Association of Southeast Asian Nations (ASEAN) summit and the East Asia Summit, both of which will be held in Singapore and would have provided opportunities for the two presidents to discuss trade issues face-to-face. Pence will also attend the Asia-Pacific Economic Cooperation (APEC) forum in Papua New Guinea as well. Now, all eyes are on the Group of 20 (G20) summit on November 30 in Argentina, another hopeful occasion for the leaders of both countries to sit down and resolve the ongoing trade dispute. Until then, dialogue on bilateral solutions to trade frictions will be unlikely to happen at the highest levels.
- ◆ *Both sides have underestimated each other's ability to endure the pain from the trade conflicts.* The Trump administration believes that using tariffs as a negotiation tactic will work to the US's advantage in the long run, and therefore, will likely not back down from the trade war anytime soon. The US economy appears to be generating robust growth, staying clear of repercussions from the trade war. Furthermore, the perception of the US's tough position on tariffs will also help the US negotiate for a better deal with other countries such as the EU and Canada. If all goes well with other trade partners, the US will not be alienated after all. These trade agreements created by the US outside of the WTO could impose more pressure on China to compromise. While it is true that the EU shares the same concerns as the US towards China, it is unlikely that the US and its trade partners can form a strategic united front against China on trade in the near-term.

One of the most common narratives used by Beijing is that China is still a developing country in need of industrial policies. Nevertheless, others would argue that while China is not the only country with industrial protections, other countries tend to do so on a smaller scale or fewer industries are involved. Together with the "Made in China 2025" initiative that was publicized to Chinese domestic audience as the government's promise to transform China into a high-tech country, Beijing is unlikely to make major settlements easily with the US on trade.

One anecdote that highlights part of the discrepancy between the views of the two sides is illustrated in the two quotes below:

"Made in China 2025 seems to reject all notions of comparative advantage and future opportunities for high-value-added manufactured exports from the rest of the world to China...If Made in China 2025 achieves its goals, the US and other countries would likely become just commodity exporters to China – selling oil, gas, beef and soybeans." – Jeremie Waterman, president of the China Center at the US Chamber of Commerce on November 7, 2017.

On November 9, 2017, following his meeting with President Trump, Xi Jinping remarked that China is willing to expand imports of LNG, crude oil and other US energy products and would explore the potential of more imports of US beef, cotton, and other agricultural products.

What does the US want?

- ◆ *An open and fair reciprocal trade relationship with China.* The core concern of the US administration is that China relies on state intervention to guide its economic development and “Made in 2025” reflects that. The US is asking that these significant structural issues that have been discussed for many years to finally be addressed. In the P+ briefing, Tim gave members a metaphor to describe the fundamental structural differences between the two sides. US-China trade relations:

There are two teams of players on the same field competing with each other but under different rules: China plays American football with protections such as the helmet and pads to reduce the impacts of external forces and the team huddles together to plan each move as they slowly move down the field. The US plays European football and dresses light, is nimble, and can change course quickly in response to its surroundings. Both teams choose different approaches to get the ball down the field, but, when competing against one another, it is not a fair game.

- ◆ *China containment theory?* Many in China have expressed concerns that the core issue of the US-China trade war lies on China’s rising power and influence that might rewrite the current world order and perceived US efforts to “contain” this rise. However, having led negotiations with China on a broad range of trade issues, the speakers held a different view, expressing that they had never encountered expressed strategies intending to contain China. While it is true that US-China relations are at a critical moment when both countries seem to have frictions on every front, this is natural and will happen to any major powers.

Moving forward?

It appears that the trade disputes will not conclude anytime soon. The global environment is not helpful either, with the global rise of populism and widening income gaps. With neither side appearing to be willing to make an effective compromise, one can only look to the G20 summit this November to see if a Xi-Trump meeting can help restore the US-China trade relations.

Would North Korea help provide major breakthroughs to the US-China trade talks? Will it have the opposite effect? Please stay tuned with our upcoming report on North Korea.