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U.S.-China Trade Talks End Without Agreement as U.S. Finalizes Unilateral Measures

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The Trump Administration's senior economic and trade officials held talks with their Chinese counterparts in Beijing, May 3-4. The talks concluded with no agreement, and each side tabled expansive demands that appear well beyond what the other side would be able to accept. Although the two sides reportedly agreed to continue communications, the gap between the positions of the two sides is wide, and the Trump Administration is now finalizing proposed tariffs on up to $150 billion in Chinese products and measures to restrict Chinese investment in high-technology sectors.

The U.S. delegation included Treasury Secretary Steven Mnuchin, Commerce Secretary Wilbur Ross, U.S. Trade Representative Robert Lighthizer, Assistant to the President for Economic Policy Larry Kudlow, and Assistant to the President for Trade and Manufacturing Peter Navarro. Their primary Chinese counterpart was Vice Premier Liu He, a close advisor to President Xi Jinping who is responsible for the U.S.-China economic relationship as well as China's financial and industrial sectors.

The reported U.S. proposal presented to China prior to the meetings included targets to reduce the bilateral trade deficit by $200 billion over the next two years, actions to end Chinese subsidies and practices that compel companies to transfer technology, ceasing government-sponsored cyber-theft and strengthening IPR protection, the lowering of Chinese tariffs to U.S. levels and the removal of non-tariff barriers, the lifting of Chinese restrictions on U.S. services and investment, and a commitment by China not to retaliate against the imposition of tariffs and investment restrictions by the United States. It proposed quarterly progress reviews on these actions.

A document purported to be a Chinese counterproposal responded partially to a small number of the U.S. demands contingent on U.S. agreement to Chinese demands, including in the areas of export controls, CFIUS, agriculture, market access for Chinese ICT products and financial services, and the recent sanctions against Chinese telecommunications company ZTE. It called for the U.S. to end its Section 301 investigation on Chinese policies and practices related to intellectual property, technology transfer, and innovation and to refrain from imposing new tariffs on Chinese products or new restrictions on Chinese investment.

It is unclear when talks might resume. Meanwhile, the Trump Administration is proceeding to finalize the actions it announced in response to the Section 301 investigation. The 60-day public comment and hearing process regarding tariffs on the initial $50 billion in Chinese products announced April 3 will end May 22, after which the Administration is expected to finalize this list. China responded to the April 3 announcement with a list of tariffs of its own on $50 billion in U.S. goods. A list of an additional $100 billion in Chinese goods subject to U.S.

tariffs requested by President Trump has been prepared and could be announced with a similar public comment and hearing process. In addition to the tariff measures, the President on March 22 requested the Secretary of the Treasury to propose measures “to address concerns about investment in the United States directed or facilitated by China in industries or technologies deemed important to the United States” and to report progress within 60 days.

It remains to be seen whether these unilateral measures or further talks will define the next phase in the fractious U.S.-China trade relationship. On the eve of the visit, Lighthizer told a group of American businesses that the United States and China will spend the next year working out how to deal with each other in the economic relationship and are currently in the early stage of this process. It is likely that this will mean a prolonged period of uncertainty and turbulence for companies navigating this relationship.

Covington’s diverse trade policy teams in Washington and Beijing, which include former senior government officials, are uniquely positioned to provide thoughtful strategic advice to clients seeking to monitor, prepare for, and react to developments in the U.S.-China trade and investment relationship, to mitigate negative impacts, and to adapt their business strategies to this changing landscape. We count among our ranks:

- Chris Adams, who recently joined Covington from the U.S. Department of Treasury, where he served as Senior Coordinator for China Affairs, managing the highest level U.S.-China economic policy dialogues for the Obama and Trump administrations;
- Marney Cheek, former Associate General Counsel at USTR;
- Alan Larson, former Under Secretary of State for Economic, Business and Agricultural Affairs;
- Timothy Stratford, former Assistant USTR for China Affairs;
- John Veroneau, former Deputy USTR and former USTR General Counsel;
- Gina Vetere, former Senior Policy Advisor to the Deputy USTR and former Director of IP and Innovation at USTR; and
- Robert Wang, former career Foreign Service Officer for 30 years, including serving as the Deputy Chief of Mission at the U.S. Embassy in Beijing.

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