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From Huawei charges to new tariff threats from Donald Trump: jolts keep buffeting US-China trade talks

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Months after Huawei Technologies chief financial officer Sabrina Meng Wanzhou landed in Vancouver for what was supposed to be a routine layover, she remains a bit player in a US-China stand-off over trade tariffs, next-generation 5G telecommunications and alleged espionage. The extradition process could take months, even years, on US charges that she and the company violated Iran sanctions and stole trade secrets.

This month marks two benchmarks of sorts, five months since Meng was detained and a year since a breakdown in talks that were meant to avert a trade war that has seen over US\$360 billion in tariffs imposed on goods moving between the world's two largest economies.

Vice-Premier Liu He and a large delegation of Chinese officials are scheduled to arrive in Washington this week to begin what could be a final round of talks, although a tweet by US President Donald Trump on Sunday threatening to raise tariffs on another US\$200 billion worth of Chinese goods has added to the uncertainty.

Trump's latest salvo is not likely to scare Beijing into bowing to US demands and could be counterproductive, some said.

"I doubt Trump's negotiating technique will do any good for him," said Weihuan Zhou, a senior lecturer at Australia's University of New South Wales. "Trump may think that threatening higher tariffs will force China to move. I think China will respond, but it won't compromise on its fundamental interests."

The high-profile trade battle is only one of many irritants roiling markets and spurring tension between the US and China. As Washington struggles to develop a cohesive response to China's economic and military rise, the Huawei case underscores some of the difficulties it faces, including those of its own making.

Coordination among US agencies is falling short, while Trump's impulsive responses frustrate more thoughtful policy, trade and security, experts and former officials say. Harsh treatment of allies undermines a more united approach, they add, even as Washington falls short on funding the priorities it says are vital.

“There are a lot of tools on the shop floor waiting to be picked up. But the administration, particularly the White House, has not been particularly consistent in the way that it uses the tools,” said David Shear, former assistant defence secretary for Asian and Pacific Security Affairs from 2014 to 2016 and now a senior adviser at the consultancy McLarty Associates.

“There’s an apparent gap between what the president thinks and what the national security community thinks,” he added, “and an apparent gap between what we say we want to do and the resources we devote to getting it done.”

In the mixed-message department, Trump was celebrating a temporary truce in the trade war with Chinese President Xi Jinping at the G20 meeting in Argentina on December 1, the same day Meng was arrested. A few days later in an interview with Reuters, the president said Meng could be released if Beijing bowed to US demands. In February, Trump called into question efforts to ban Huawei equipment by tweeting that the US could “win through competition, not by blocking out currently more advanced technologies”.

Efforts to craft, coordinate and implement a well-thought out policy toward China by senior US officials, including National Security Council senior Asia official Matthew Pottinger and Assistant Defence Secretary Randall Schriver, are constrained by the knowledge that Trump could reverse course at any time, say analysts and former officials.

An attempt last year, supported by Congress and China hawks, to block Huawei’s competitor ZTE from buying US components after accusations that it exported sanctioned US-made components to Iran and North Korea was quickly reversed by Trump after a personal appeal from Xi. “Too many jobs in China lost,” the “jobs for Americans first” president tweeted.

“When Trump pays attention, it tends to throw a monkey wrench in the works,” said Eric Gomez, a military and foreign policy analyst with the Cato Institute, a conservative Washington think tank.

“If things can be on autopilot, supported by the bureaucracy, the Congress for a while, then that’s OK.”

The administration’s deep distrust of security and trade groupings, such as the Trans-Pacific Partnership designed to hold China to higher international standards, has added to the disconnect, others add.

After repeated charges that allies are “cheating” the US on trade under its “America First” banner – dubbed by some in Washington “America Alone” – the administration faces a tepid response in calls for a united response to Huawei.

Washington believes broad-based rejection of Huawei 5G equipment among allies is essential to prevent sensitive information from falling into Chinese hands given close links between the company and the government.

Huawei maintains that it’s not state funded and does not share data with Beijing. Yet this comes as the United Kingdom, Germany, Britain, India and the United Arab Emirates have all signalled their reluctance to completely ban Huawei from their future 5G networks.

“This kind of piecemeal bilateral approach is taking all of our natural advantages and squandering them,” said Susan Thornton, acting assistant secretary of state for East Asian and

Pacific affairs during the end of the Obama administration and first 18 months of the Trump's presidency.

“A group is always more effective than an individual. You want to have the maximum leverage, the maximum pressure on China to address its transgressions.”

There has been no shortage of US initiatives aimed at checking China's influence.

The Pentagon has stepped up freedom-of-navigation voyages in the South China Sea in response to Beijing's island-building programme and proposed a US\$500 million training programme for Taiwanese F-16 pilots. The Commerce Department has tightened export controls. The Treasury Department has stiffened Chinese investment restrictions. The State Department and National Security Council are honing an “Indo-Pacific” strategy to counter China's growing regional influence. And the Justice Department is tightening anti-espionage efforts, among others.

“No country poses a broader, more severe intelligence collection threat than China,” Christopher Wray, director of the Federal Bureau of Investigation, told the Council on Foreign Relations recently. “They're calculating. They're focused. They're patient and persistent.”

But critics say coordinating and adequately funding the various US military, security, diplomatic and foreign aid initiatives is falling short, despite China's official designation as a “strategic competitor”.

The State Department, for example, has requested US\$42 million in “foreign military financing” this year for the Asia-Pacific region, the heart of the US Indo-Pacific strategy, under a programme to help allies counter perceived threats. This sum, however, is less than 1 per cent of its proposed US\$5 billion budget for foreign military financing. Its request for Tunisia alone is US\$40 million.

Business groups say they welcome the administration's efforts to reverse years of forced technology transfers, unfair trading rules and market-distorting subsidies. But they say implicit pressure to “decouple” supply chains from Chinese manufacturers and move factories back to the US often is not realistic given limited alternatives and a lack of US component makers.

That has helped spur broader recognition that the US needs to offer viable options to China's robust programmes if it hopes to counter Beijing's expanding influence. The Asian giant routinely assembles contractors, financing, labour, construction services and equipment when approaching other countries looking for infrastructure under its ambitious “Belt and Road Initiative” or 5G equipment provided by Huawei.

“We've all been critical of Huawei, but we don't jointly or individually – US or the EU – have a really good economic alternative yet for Huawei,” the Defence Department's Schriver said recently at the conservative Hudson Institute think tank in Washington. “It's an attractive package they offer.”

Recognising the importance of the financing component for international projects, the administration is trying to beef up its own government-backed loan programme.

After initially seeking to eliminate the Overseas Private Investment Corporation agency as wasteful corporate largesse, it reversed course and folded OPIC into a new agency. The

International Development Finance Corporation, created under the “BUILD Act”, will see a doubling in investment portfolio size to US\$60 billion.

While a good start, some in Washington call this a “rounding error” relative to China’s massive belt and road outlays, even as the administration calls for budget cuts in other global development funding areas.

“The problem with the US effort is that it’s been a little schizophrenic,” said Thornton, who is now a Yale Law School senior fellow. “It’s kind of a left-hand, right-hand problem.”

Administration officials counter that the US can’t and shouldn’t try to beat China at its own infrastructure game, adding that the US is tapping the efficiency of the private sector without relying on wasteful state-led programmes that threaten to leave developing countries mired in debt.

Even as many Washington insiders debate whether the various US initiatives rise to the level of a policy, most say Trump’s lack of predictability and willingness to throw out traditional playbooks is giving Beijing pause. They also note a stronger consensus among Washington’s many political, security, trade and economic interest groups for a tougher China line than at any time since the bloody Tiananmen Square crackdown in 1989.

This shift is likely to endure, many say, even if Trump agrees to a high-profile, big-dollar deal that looks good politically but does little to address China’s heavy hand on the economic scale.

While it’s clear the US and China are too interdependent to avoid working together, the nature and momentum of US bureaucracies once created and the raft of tougher new US initiatives will hamper Beijing’s manoeuvring room, they add.

In the past, China has too often relied on the next election and Washington’s short attention span to reduce remove the pressure over perceived unfair trade practices, technology theft and security threats, they say.

“I think it is as coordinated and integrated as you can expect from a big mass of an organisation like the US government,” said Simon Lester, a Cato Institute trade analyst. “This idea that China is bad and cheating, it’s everywhere. It’s infected the whole US establishment. In the future, anyone who’s in power, who might be in power, is going to have that view of China.”