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Pessimism Looms Over Prospect of a Sweeping China Trade Deal

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As a critical round of talks with China kicks off next week, the Trump administration is increasingly pessimistic that Beijing will make the kind of deep structural changes to its economy that the United States wants as part of a comprehensive trade agreement, according to officials involved with the talks.

The United States is now weighing whether large Chinese purchases of American goods and more modest economic changes will be enough for a deal to end a damaging trade war between the two nations and help calm volatile markets.

A Chinese delegation led by Liu He, China's vice premier, will meet with Robert Lighthizer, the Trump administration's top trade negotiator, and Steven Mnuchin, the Treasury secretary, on Jan. 30 and 31. The two countries are racing to strike an agreement by March 2, a deadline set by President Trump and President Xi Jinping of China.

If no deal is reached by that date, Mr. Trump has said the United States will raise tariffs on $200 billion worth of Chinese goods.

Mr. Trump has focused on narrowing the trade gap between what the United States imports from China and what it exports, but the administration is also pressuring Beijing to scale back subsidies of state-owned enterprises, drastically open its markets to foreign investment and end its longstanding practice of forcing American companies to hand over trade secrets.

For years, American companies, including technology firms and automakers, have been clamoring for such changes as they try to gain access to China's growing market. But many are beginning to fear that if the continuing brinkmanship between the world's two largest economies is not resolved, American companies will be left in an even worse position.

"I would have a hard time, especially considering what's happening in Washington, believing that this will be wrapped up in a little bow by March," said Charles Freeman, senior vice president for Asia at the U.S. Chamber of Commerce.

Markets have been particularly sensitive to the state of the talks, with stocks gyrating as whispers of progress or setbacks trickle out.

Stock prices in the United States spiked last week after a Wall Street Journal report suggested that Mr. Mnuchin had recommended the removal of some tariffs to hasten a deal. They jumped again after Bloomberg News reported that China had offered to buy $1 trillion of American goods over the next six years.

Over the weekend, Mr. Trump expressed hope that a deal could be reached but dismissed suggestions that the United States would roll back tariffs in advance of concessions from China.

“We have taken in tremendous amounts of money in the United States because of the sanctions,” Mr. Trump told reporters on Saturday, apparently confusing sanctions and tariffs. “If we make a deal, certainly we wouldn’t have sanctions.”

In a tweet on Monday evening, Mr. Trump once again suggested that the United States had the upper hand in negotiations, saying China’s slowing economy should hasten a trade deal.

“China posts slowest economic numbers since 1990 due to U.S. trade tensions and new policies,” the president said. “Makes so much sense for China to finally do a Real Deal, and stop playing around!”

Despite Mr. Trump’s optimism about reaching a deal, others in the administration and on Capitol Hill have been more circumspect.

“This is an ongoing process with the Chinese that is nowhere near completion,” a Treasury spokesman said, rebutting the suggestion that Mr. Mnuchin had recommended rolling back tariffs.

Last week, Senator Chuck Grassley of Iowa, the Republican chairman of the Senate Finance Committee, said that Mr. Lighthizer, who is leading the talks, had told him there had been no progress on the “structural” changes that the administration sought from China.

Mr. Lighthizer, a longtime China hawk, has been pushing to ensure that China fulfills promises that Mr. Xi made to Mr. Trump during a meeting in Buenos Aires last year. Mr. Lighthizer has expressed concern to colleagues and business groups that Mr. Trump could accept a watered-down deal that reduces the trade deficit but offers only symbolic structural changes to help end the trade war and lift the stock market.

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In an interview on the Fox Business Network on Friday, Larry Kudlow, the director of the National Economic Council, said he was hopeful that a deal would be reached but acknowledged that many details still needed to be determined.

“The technology stuff has not been dealt with, the enforcement stuff has not been dealt with,” Mr. Kudlow said. “The commodity stuff and the tariff rates, we’re moving on the right track.”

To those who see the negotiations as the best opportunity to rebalance the trade relationship between Washington and Beijing, the prospect of rolling back tariffs without sweeping concessions by China would fail to achieve Mr. Trump's goal of ending what he has deemed its unfair trade practices.

"He wants to brag about what he got, not stop tariffs and be able to brag about nothing," said Derek Scissors, a China expert at the conservative American Enterprise Institute.

A slimmed-down deal could also open Mr. Trump up to criticism from Democrats, who in some cases are more aligned with the president's aggressive approach to pressuring China than many Republicans.

"Anything less than a full effort to secure a fundamental reset of the U.S.-China trade relationship is a betrayal of the American economy and the future of American workers, industry, consumers and innovators," said Representative Richard Neal of Massachusetts, the Democratic chairman of the House Ways and Means Committee. "The Trump administration needs to stiffen its spine and get tough in these China talks."

Trump administration officials have been debating whether they can push more tariffs on China without facing significant repercussions. China's economy is already slowing, in part because of the tariffs, and any further weakening could hurt global economic growth and the United States economy, which is itself showing signs of cooling.

Mr. Mnuchin has been particularly interested in how big a role America's trade actions are playing in China's recent economic weakness.

Trump administration officials have debated whether they should follow through with plans to raise tariffs to 25 percent, from 10 percent, on March 2 if China does not maintain the promises Mr. Xi made to Mr. Trump, like accelerating purchases of American goods and making structural changes to its economy.

Progress over the next six weeks could result in an extension of the March 2 deadline, even if a final deal is not reached, or some tariff relief as a reward for initial changes that China says it is willing to make. But the decision will ultimately rest with Mr. Trump.

One question bedeviling the talks is how to enforce any trade agreement with China, given its opaque business environment and largely managed economy. One option that administration officials have considered is "snapback" tariffs, which would be reimposed if China appears to be reneging on its commitments.

Mr. Trump has pointed to China's economic weakness as a reason it should acquiesce to his country's trade demands. But the trade war is also taking a toll on the United States economy, and the monthlong shutdown could lead to an economic contraction if it continues to drag on.

While business are hoping for greater access to China's markets, the strategy of using tariffs as a negotiating tool has dented business confidence. According to a survey of 277 American companies by S&P Global this month, 43 percent said they had postponed investment because of the China tariffs.

Michael Pillsbury, a China scholar at the Hudson Institute who advises the administration, said that there were several important unknowns about the trade discussions that suggested a comprehensive deal was not near.

It remains unclear if there is a working text of a deal that the two countries are using to hash out an agreement. And it is unclear whether China will pressure the Trump administration to drop its efforts to extradite the chief financial officer of Huawei, the Chinese telecommunications company. The executive was arrested in Canada last year as part of a broader agreement. The complicated internal debates taking place within China's government also make it difficult to predict its willingness to make concessions.

"We are a long way to a deal," Mr. Pillsbury said. "Much work remains to be done, especially untangling the debate in China and pressure on Xi Jinping."

But Mr. Trump is also under pressure and the window for him to use market-rattling tariffs as leverage is likely to shrink as his re-election campaign heats up next year.

"The damage to U.S. business, consumers and exporters is real and ongoing," Scott Lincicome, a trade lawyer and scholar at the Cato Institute, said, noting that the risks of this approach only increased if negotiations with China dragged into 2020. "If you're the Chinese, delay is your best friend."