

## How Xi Jinping's colleagues rejected an 'unequal' trade deal

*A 150-page agreement was sent back to Washington, gutted and shrunk to 105 pages*

**Katsuji Nakazawa**

TOKYO -- Early this month, the Chinese government sent the U.S. a trade deal draft that had been slashed from 150 pages -- painstakingly assembled by both sides over five months of negotiations -- to 105.

The move riled U.S. President Donald Trump and brought progress on the trade talks to a screeching halt, as Beijing surely knew it would.

To understand why China went ahead anyway, we must go back to late April, when Chinese President Xi Jinping's schedule was packed with events in and around Beijing. The first was the second Belt and Road Forum for International Cooperation, on April 25-27, which brought together leaders from more than 30 countries.

While it was a moment in the sun for Xi, his disposition was far from sunny.

At the first forum two years ago, a large display at the event's media center followed Xi's every step as he strutted around the venue alongside other world leaders, with a confident smile befitting the head of a global superpower.

This year, images of Xi strolling were nowhere to be found. When the president began his address, at an unannounced time, the display abruptly popped up in the media center -- almost as if the organizers did not want to show his gloomy countenance for long.

In retrospect, Xi Jinping did not look as confident last month at the second Belt and Road Forum as he did at the first two years ago. © Reuters

At the time, the world's hopes were still high for a speedy U.S.-China trade deal, but Xi was no doubt aware that a tense domestic situation made a quick compromise extremely unlikely.

The night after the event, Xi, clad in a heavy coat, watched a lavish display of fireworks outside Beijing. Again he was alongside other world leaders and VIPs. The show was part of the opening ceremony of the International Horticultural Exposition, one of a string of big events organized as a lead-up to the 2022 Beijing Winter Olympics.

The fireworks did not put Xi's mind at ease. The U.S. had not sent a delegation to either the Belt and Road forum or the gardening expo.

Voices within the Chinese Communist Party, growing louder day by day, were insisting that "an unequal treaty that codifies meddling in our domestic affairs into law is unacceptable."

These cries came not only from the party's conservative left but also from the rank and file -- from the core of workers and management at state-owned companies, from industries that rely on subsidies for survival and from the bureaucratic institutions that protect them. The proposed deal threatened their interests.

When modern China was established seven decades ago, the party denounced the "unequal treaties" China signed under imperial rule, exemplified by the 1842 Treaty of Nanking with Great Britain, which ended the First Opium War, and the 1895 Treaty of Shimonoseki, which ended the first Sino-Japanese war.

Based on an 1846 painting by Captain John Platt, this print shows a view of the formal ceremonial signing of the Treaty of Nanking aboard the British ship HMS Cornwallis, on August 29, 1842. © Getty Images

The Shimonoseki agreement forced the Qing dynasty to pay an indemnity to Japan and hand over Taiwan. The dynasty would not last two more decades.

Whether the proposed deal between the U.S. and China really qualified as an "unequal treaty" is debatable, but regardless, it cut to the communist government's heart. It would forbid forced technology transfers by a variety of both public and private means, theft of foreign technology or intellectual property, subsidies to state-owned enterprises and export subsidies given to all companies.

It is easy to understand the argument that the legal measures demanded by Washington were an unacceptable form of interference that violated China's principles.

In late April, Xi was forced into an about-face in his negotiating tactics. The negotiating team, led by Vice Premier Liu He, one of Xi's close aides, had focused too much on reaching an amicable resolution and stepped outside the bounds of the discretion granted by party leadership.

But the Xi-Liu axis would never compromise on the most vital points -- those intertwined with Communist Party rule. This is "the last 10%" that U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin have said stood in the way of a deal.

The talks broke down not over that 10% but over the 90% that had already been agreed to by Liu and Lighthizer. Shuttling back and forth between Beijing and Washington for multiple rounds of talks, the two teams had collaborated on that 150-page document, which covered seven areas.

Liu must have felt some attachment to the draft. The text was carefully constructed, with the Chinese and English versions meticulously compared. Lighthizer, who negotiated successfully with Japan in the 1980s, examined it with an international lawyer's eyes. The Chinese side even grew sick of his constant scrutinizing of the wording, sources familiar with the talks said.

Even so, the deal moved 90% of the way to its goal. Given Liu's closeness with Xi, it should stand to reason that at least the overall outline of the agreement had the approval of China's leadership.

Yet the text went back to the U.S. gutted. From Washington's point of view, the agreement was now nothing more than 105 pages of words, with nearly all of the legal and other mechanisms to ensure compliance ripped out. It was proof that Beijing had given up on reaching a quick conclusion.

The first sign that the negotiations had hit a wall came on May 5, when U.S. President Donald Trump tweeted about tariffs on imports from China going up to 25%. But by that time a heightened trade war was a foregone conclusion. China had already informed the U.S. of the significantly watered-down draft.

Chinese media have reported that Xi said he will take responsibility "for all consequences."

Xi is believed to have made this pledge to either the seven-person Politburo Standing Committee or the full 25-member Politburo. Those gatherings would have taken place after the two big events, most likely at the end of April or the first days of May.

The Politburo Standing Committee consists of Xi, who has the power to convene a meeting and chair it; Li Keqiang, the premier; and five other top party figures. If the seven cannot come to a unanimous decision, a vote is taken, with each member, including Xi, having one vote each.

Every important decision, by rule, must be approved by the wider Politburo.

The reports about Xi pledging to take responsibility smell of propaganda. The decision to show the U.S. the revised draft was made before Liu flew to Washington for trade talks late last week and would have been made collectively at the highest level.

Despite being positioned as the "core" of the party leadership, even Xi cannot overturn a collective decision without securing the consent of the party leaders.

The Xi-Liu duo, which has been leading the trade negotiations, was, in effect, shackled.

This is a sign that, seven years into his rule, Xi's political momentum is slowing. While garnering unrivaled power through an anti-corruption campaign that eliminated his rivals, the president has little to show the public in terms of economic achievement.

The credit of expanding China's economy into the world's second largest goes to Xi's predecessors.

When Liu appeared in Washington last week, he no longer had the title of being Xi's "special envoy." His sole mission was to convey to the world that negotiations had not collapsed and that they will go on.

Not even two years ago, U.S. President Donald Trump was patting Chinese President Xi Jinping on the back. Today, the presidents are slapping each other with tariffs. © Reuters

On May 10, while Liu was still in town, the Trump administration imposed additional import tariffs on \$200 billion worth of Chinese goods. China responded days later, announcing retaliatory tariffs on \$60 billion worth of U.S. imports.

Adding to the pressure, the Trump administration then released details of a fourth round of punitive import tariffs, on about \$300 billion worth of Chinese good, to be imposed after a public comment period that lasts until late June.

There is still time to talk, and Trump has said he will meet with Xi in Osaka, on the sidelines of the Group of 20 leaders summit. The two-day meeting begins June 28.

When the presidents sit down together, at stake will be the implementation of tariffs on all Chinese exports to the U.S.

The Chinese media is hardening its stance, pounding the argument that China can never compromise on principle issues.

Xi has no easy task.

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