

US, China reach \$1.4 bn ZTE deal as signs emerge of trade talks progres

June 7 2018, by Douglas Gillison



US Commerce Secretary Wilbur Ross, who announced a deal to ease sanctions on Chinese firm ZTE, is seen at a June 3 meeting in Beijing with Chinese Vice Premier Liu He

Washington and Beijing have reached a deal to ease sanctions that brought Chinese smartphone maker ZTE to the brink of collapse, the US

Commerce Department announced Thursday.

The deal could be a harbinger of progress in separate and fraught trade talks between the world's two largest economies although Commerce Secretary Wilbur Ross on Thursday reiterated a denial that there was any connection between the two.

The ZTE settlement comes days after Beijing reportedly offered to ramp up purchases of American goods to help cut the yawning trade imbalance with the United States—moving part-way towards meeting a major demand of US President Donald Trump.

US lawmakers on Thursday renewed vocal objections to lifting the sanctions, saying the company posed an "espionage risk" to the United States in addition to having violated its sanctions on Iran and North Korea.

Ross told CNBC on Thursday the deal was tough and would keep ZTE on a short leash.

"This is a pretty strict settlement. The strictest and largest settlement fine that has ever been brought by the Commerce Department against any violator of export controls."

In April, Washington banned the sale of crucial US components to the company after finding it had repeatedly lied and failed to take action against workers responsible for the sanctions violations.

The company was fined \$1.2 billion last year. But under the deal announced Thursday, ZTE will pay an additional \$1 billion penalty and put another \$400 million in escrow to cover possible future violations.

ZTE will also be required to change its entire board of directors and hire

outside legal compliance specialists who will report to the Commerce Department for 10 years.

In return, Washington will strike the company from a sanctions list.



The deal with ZTE, whose logo is shown on a building in Beijing, comes as the US and China engage in separate and fraught trade talks

Another shoe to drop?

Lawmakers of both major parties on Thursday threatened to take congressional action that could block or alter the deal, calling ZTE a threat to US national security.

"There is absolutely no good reason that ZTE should get a second chance and this decision marks a 180-degree turn away from the president's promise to be tough on China. It's up to Congress now to act to reverse the deal," Chuck Schumer, the Senate's top Democrat, said in a statement.

The news comes as Trump presses ahead with plans to impose as much as \$50 billion in tariffs on Chinese imports to punish Beijing for its alleged theft of American technology and know-how.

Washington and Beijing have pursued a halting series of trade talks, with Trump demanding a \$200 billion reduction in its trade deficit with China.

Ross told CNBC the ZTE deal was an enforcement matter that was unrelated to the trade talks, which he has led.

"It happens that I have been involved with the other negotiations with China. But that's quite separate and apart from enforcement," he said.

China last weekend reportedly offered to buy an additional \$70 billion in US goods to cut the trade deficit, moving toward meeting one of Trump's central demands on trade.

William Reinsch, a trade expert at the Center for Strategic and International Studies, said the ZTE offer suggested Beijing could have concessions to Trump on trade but it remained unclear whether these were of equal value.

Beijing's reported offer to buy \$70 billion in goods was "peanuts" compared to the \$200 billion cut in the US trade deficit with China that Trump demanded, Reinsch told AFP.

"It's hard to believe there's no linkage but Ross clearly left Beijing without anything last weekend," he said.

"I think there's another shoe to drop."

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