China | Mixed results from US trade talks

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The second round of negotiations held in Washington last week between the US and China to resolve a long standing bitter trade dispute has yielded mixed results. For starters, on a positive note, the two sides acknowledged the need to avert a trade war and that continued formal talks were the best way to address bilateral trade issues. Post-meeting statements to this effect from China's top economic advisor, Liu He, as well as US Treasury Secretary Steven Mnuchin should help soothe unnerved investors' fears of a lose-lose trade war (See our related report). The former noted that 'both sides agree not to go ahead with imposing tariffs', while the later stated, 'we're putting the trade war on hold'.

The two sides agreed on the need for 'effective measures to substantially reduce" the US $375 billion annual trade deficit, as seen in 2017, with China. The middle kingdom agreed to 'significantly increase' its purchase of US goods and services and on the need for meaningful increases in US agriculture and energy exports to China. Further, China promised to amend relevant laws and regulations, including its patent law, to address important issues revolving around forced technology transfers, cyber theft, and the protection of intellectual property rights. In this context, the US has asked its agricultural companies to draw a list of products that could be ramped up for exports to China. Also, China is putting together a list of high-tech products that are currently barred by US exports controls for sale to China but are allowed by other economies. The past couple of weeks have seen a tit-for-tat gradual de-escalation of trade-war tensions between the US and China, akin to the way trade-war threats had escalated between the two since early this year. Responding to Trump's recent tweet stating that he was working with President Xi to get Chinese telecom major and one of China's national champion, ZTE 'back into business', China eased roadblocks to M&A deals faced by US semiconductor company Qualcomm, among others. Further, last Friday, China withdrew anti-dumping investigation on US sorghum exports, bulk of which is purchased by China. This follows President Xi's speech at the Boao forum last month where he announced more opening up policies for China (See our related report).

Bilateral trust deficit and structural issues mean a quick fix solution won't work

Notwithstanding its progress, the latest round of trade talks exposed longstanding fissures dividing the US and China on trade as well as those within the US camp on the appropriate stance to deal with China. Shrugging US proposal that China reduce its trade gap by $200 billion by end of 2020, China refused to abide to any specific target in USD amount. Further, wary of appearing to make concessions to the US, China noted that its purchases of US goods are intended to meet growing consumption needs of the Chinese people. Also, there was no firm agreement on a reprieve for ZTE, an issue, which Mnuchin mentioned was related to enforcement, rather than trade. A speedy resolution of the ZTE issue is vital to defuse bilateral trade tensions. China won't allow its national champions in the technology sector to collapse under US pressure and could stiffen China's resolve to become technologically independent in the long run. Meanwhile, adding to the uncertainty over US trade agenda, Mnuchin and US Trade Representative Lighthizer gave contradictory statements over US plans to move forward with proposed tariffs of up to US $150 billion on China. While Mnuchin put the 'trade war on hold', Lighthizer noted that US may still resort to tariffs, as well as other tools including investment restrictions and export regulations, unless China makes 'real structural change' to its economy. In this context, several members of the US Congress remain wary of allowing Trump to let his guard down against China while settling for a so-called 'mini' deal without addressing structural issues on trade and investment.

Ongoing bilateral trade talks have been broadly progressive, albeit incremental. However, they are unlikely to provide a quick fix permanent solution to trade tensions between the US and China. These stem from bilateral trust deficit as well as deeper structural issues related mainly to savings and investment patterns in both countries alongside the operating environment, regulatory and institutional framework. Nevertheless, with trade tensions beginning to bite businesses in both nations, much depends on the progress of ongoing negotiations process. With US Commerce Secretary Wilbur Ross expected to visit China next to continue the talks, investors will seek credible actions from both sides to diffuse trade tensions further.

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