US-China trade war postponed

Playing for drama benefits Trump's narrative

by Joergen Oerstroem Moeller in Singapore

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On the sidelines of the G20 meeting at the beginning of December, US President Donald Trump and Chinese President Xi Jinping agreed to suspend announced tariff increases for 90 days – from 1 January to 1 April 2019 – while undertaking negotiations to avoid a trade war. The talks will focus on technology transfer, intellectual property protection, nontariff barriers, cybercrime, services and agriculture. China will buy agricultural, energy, industrial and other products from the US to reduce the trade deficit. Policy statements prior to the Trump-Xi meeting offer clues as to the two sides' negotiating strategies and the odds for success or failure of the trade talks.

Trump's earlier position that 'trade is bad' is simplistic and does not carry weight in the real world. Domestically, the president faces opposition from businesses profiting from trade and from consumers dreading a reduction in purchasing power. Pursuing a declaratory policy will prove costly.

The US Trade Representative is more focused. They say that since China joined the World Trade Organisation in 2001, it has pursued discriminatory policies that harm foreign countries and companies. Washington believes US businesses have been the most affected by these practices. In particular, the USTR has hit out against a policy that forces foreign companies operating in China to transfer technology to Chinese companies as a condition for entering the market.

In a speech on 4 October 2018, US Vice-President Mike Pence launched a withering attack on China. This may be a sign that Washington is no longer willing to integrate China in the global economic system, opting instead for a more belligerent attitude, possibly in an attempt to stunt China's rise.

Trump's aggressive rhetoric does not match his actions. He revised the US-South Korea free trade agreement and plans to replace the North American Free Trade Agreement with another deal with Canada and Mexico. Both new deals are fairly similar to their predecessors. Despite his protestations, Trump is yet to launch a trade war against the European Union.

China could strike a deal with the US if or when the time is right. Beijing may choose to gamble on a weaker presidency in the light of the US midterm election results, and the possibility of Trump not being re-elected in 2020. But that approach carries risk; if he is re-elected, Trump may seek revenge on China.

Neither side has endeavoured to shape a coalition supporting their view. The US could invite the EU to ask for better Chinese compliance with WTO rules. China could ask the EU to defend the liberal trade system and resist unilateral behaviour. This does not bode well for the global system, and is symptomatic of the WTO's decline as a forum for settling disputes.

Chinese concessions on compliance with WTO rules, including a softer approach on technology transfer, as well as huge imports of US goods, would satisfy Washington. Beijing may be willing to do this, provided the Communist party's prerogative on policy is not questioned.

In the light of the US midterm election results, Trump is turning his attention towards retaining the presidency in 2020. To him a trade war sounds terrific, but it will hit voters and businesses. It may be better to enter into negotiations with China, play for drama, keep focus on his 'America first' initiative and, ultimately, conclude an agreement. Trump will praise himself and tell how he managed to put China in its place, boost US exports and create jobs, all of which, he will say, his predecessors were unable or unwilling to do.

Trump is clearly on that path. He has told reporters, 'If it happens, it goes down as one of the largest deals ever made. It will have an incredibly positive impact on farming, meaning agriculture, industrial products, computers, every type of product.'

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