Economics

Trump and Xi's Truce Risks Extending, Not Ending Trade War

By Shawn Donnan
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- Questions raised over the tariff ceasefire and next steps
- Both leaders face awkward domestic politics in search for deal

Donald Trump, right, and Xi Jinping, left, along with members of their delegations on Dec. 01. *Photographer: Saul Loeb/AFP via Getty Images*

President Donald Trump framed his weekend trade truce with China's Xi Jinping as an "incredible deal," yet the leaders' Buenos Aires steak dinner risks extending rather than ending the trade war.

The postponing of a planned U.S. tariff hike on Chinese goods for three months was greeted by analysts and business groups as a welcome détente, avoiding for now a worsening of relations between the world's largest economies. Investors were also upbeat with stocks jumping and Treasuries falling on Monday.

For all the early optimism, however, differences on difficult issues such as Chinese industrial policy and intellectual property regimes remain vast and tough negotiations now lie ahead with the temporary pact due to expire March 1. Companies and markets will continue to be dogged by uncertainty.

"Once the afterglow of this dinner meeting fades, reality will begin to set in fairly quickly,'' said Eswar Prasad, a Cornell University expert on both Chinese economic policy and trade. "I don't see an easy path within the 90-day window to resolve the differences they have.''

The terms of the truce itself remain murky. Though China and the U.S. both said it calls for the U.S. to delay a Jan. 1 increase to 25 percent in the 10 percent tranche of duties now in place on roughly $200 billion in annual imports from China in official statements, they offered varying versions of what had been agreed.

In exchange for the pause, China pledged to buy "a not yet agreed upon, but very substantial, amount of agricultural, energy, industrial, and other product," the U.S. announced. Chinese officials did not mention any purchases.

Trump late on Sunday tweeted that China had also agreed to lower its tariff on auto imports from the U.S., which thanks to retaliatory tariffs imposed by Beijing earlier this year now stand at 40 percent versus 15 percent for vehicles from anywhere else.

The two sides also said they would begin negotiations on larger "structural issues'' that the U.S. said they "will endeavor'' to have completed within the 90 days. China did not refer to any deadline in its statements.

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Beyond those short-term details, Trump and Xi both have far larger questions to answer.

Trump has claimed the tariffs he has imposed this year on roughly $250 billion in Chinese imports - and his threat of more to come - created leverage in his war against the unfair trade practices he believes have fueled China's economic rise. But the tariffs have yet to cause any meaningful concessions from Xi to U.S. demands.

The negotiations now due to proceed are ones that Trump himself has said the Chinese have been eager to have for months and that hawks in his own administration have always viewed skeptically.

After leaving Argentina, each leader has domestic constituencies to appease.

For Xi, the question looming is how to balance U.S. demands that in some cases make economic sense for China -- such as opening up the economy to further competition -- with a national distaste for bowing to foreign powers.

One upcoming milestone for Xi are celebrations of the 40th anniversary of Deng Xiaoping's launch of the "reform and opening up" that led to China's economic rise. Xi could use the occasion to announce his own reform package and quietly meet many American demands along the way.

But even Deng's legacy "is highly contested" in China these days and any move by Xi would require careful calculation, said Craig Allen, the head of the U.S.-China Business Council.

What Our Economists Say

"Serious structural problems can't be resolved in such a short time. We think China will have some pre-cooked policies that can be presented as reforms in the domestic context, and concessions by the U.S."

--Tom Orlik, chief economist, Bloomberg Economics

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As for Trump, he has demonstrated clashing tendencies on trade in his first two years in office that seemed to be in evidence again in his approach to China, said Matthew Goodman, who served as an Asia hand on the National Security Council under presidents Barack Obama and George W. Bush.

Trump has reveled in his ability to disrupt the decades-old status quo in global trade and employ long-scorned tools such as tariffs. Yet he has also demonstrated a propensity for backing down. The revised North American Free Trade Agreement, which he signed on Friday after once regularly threatening to blow it up, was one example, Goodman said. So too were negotiations with the EU and Japan that led to their own tariff truces.

"Often when he gets to the brink on trade Trump pulls back for fear of the backlash,'' said Goodman, now at the Center for Strategic and International Studies. With financial markets unnerved by the prospect of an escalating trade war, the weekend China truce was "an example where the potential market reaction stayed his hand."

The presidential hand may even be weakening. The consensus among economists is that U.S. economic growth peaked this year and that means the capacity to absorb fallout from trade skirmishes without political consequences may be dissipating. Moreover, after last month's Republican mid-term election losses, Trump has less of a grip on domestic politics than he did.

Democrats, who are poised to control the House of Representatives come January, showed signs on Sunday of the intense scrutiny they will apply to any Trump-China deal ahead of the 2020 elections.

Representative Bill Pascrell, a New Jersey Democrat vying to lead the House Ways and Means Subcommittee on Trade, was blunter in his assessment. "It turns out trade wars aren't easy to win,'' he said. "I'll be watching whether this truce actually delivers, or if Mr. Trump will just blow things up again."

(Updates markets in second paragraph.)