

Economics

Prospects for Trump-Xi Deal Fade Even With G-20 Meeting Confirmed

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- ▶ Best hope, analysts say, is for pause on next wave of tariffs
 - ▶ Chinese policy makers hunker down for a protracted battle
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Donald Trump and Xi Jinping in Beijing on Nov. 9, 2017. *Photographer: Nicolas Asfour/AFP via Getty Images*

Expectations for a one-on-one meeting between President Donald Trump and China's Xi Jinping are already being lowered with officials from both sides increasingly pessimistic about prospects for a resolution to their deepening trade war.

Larry Kudlow, the head of Trump's National Economic Council, on Tuesday confirmed that the two presidents would meet "for a bit" on the sidelines of the Group of 20 summit in Buenos Aires on Nov. 30-Dec. 1. The hope, Kudlow said, was that "the two presidents agree on some basic principles," though he warned that he wouldn't predict that.



Companies such as Honeywell International Inc. and Caterpillar Inc. as well as consumers in China and the U.S. are starting to feel the impact of tariffs imposed on some \$360 billion in annual two-way trade and companies are considering how to adapt supply chains.

'We're Not Waiting': U.S. CEOs Accelerate Retreat From China

Chinese officials -- who once hoped to buy their way out of a conflict via purchases of U.S. energy and agricultural exports -- are also now bracing for a prolonged fight and focusing on adapting to a "new normal" in relations.

In private, Chinese officials have started to talk less about a potential peace and more about "stabilizing" the relationship with the U.S. to avoid escalation. Progressively tougher rhetoric out of Washington has helped feed the view that the Trump administration is embarking on a strategy to contain China and curtail its economic rise.

Chinese Economy

That's causing Beijing to focus on domestic measures to shore up growth and protect industries affected by the trade hostilities, as seen during the campaign to talk up the private sector and

stabilize financial markets. China rolled out the initiative in light of last week's softer-than-expected numbers on economic growth.

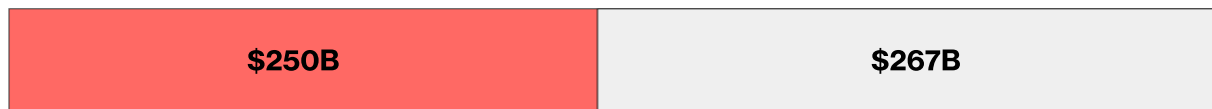
"I don't really see an easy way out of this," said Eswar Prasad, a Cornell University economist and former China official at the International Monetary Fund. "The Chinese side are digging in for protracted hostilities."

Shots Fired

U.S.-China trade war is intensifying, based on imposed and threatened tariffs

Total **U.S. imports** of Chinese goods in 2017: **\$506 billion**

Tariffs on goods in effect or announced Threatened



Total **Chinese imports** of U.S. goods in 2017: **\$130 billion**



Source: U.S. Census Bureau and Bloomberg

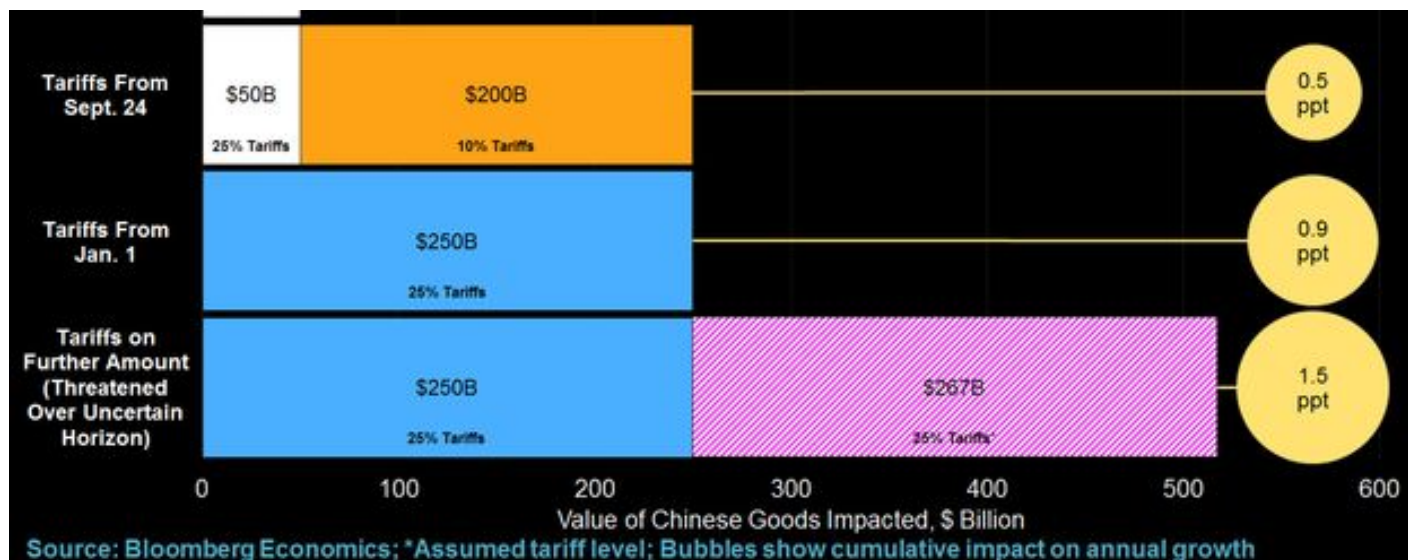
Trump and his top aides have continued to insist that the time isn't yet right for a grand bargain with China. They're touting the damage done by U.S. tariffs on the Chinese economy, as seen in recent falls in China's currency and financial markets.

"We have the economic advantage right now. The whole reason the yuan is falling is because people are disinvesting in China," Kudlow said in an Oct. 18 speech. Meanwhile, "we are in a boom. We are in a position to back up our actions. I'm not sure they can."

The president has also hailed the tariffs as a revenue generator for the U.S.

"Billions of dollars are, and will be, coming into United States coffers because of Tariffs," Trump tweeted on Tuesday. "If a country won't give us a fair Trade Deal, we will institute Tariffs on them. Used or not, jobs and businesses will be created. U.S. respected again!"





Efforts to broker peace have faltered since the summer because of the looming midterm elections in the U.S. and a feeling among Chinese officials that they have been burned when they cut deals before with Trump emissaries such as Treasury Secretary Steven Mnuchin. Initially, hopes had been raised that a meeting between Trump and Xi at the G-20 might yield a detente. Trump says often that he's established a great personal rapport with Xi.

Increasingly, however, officials on both sides are playing down expectations for that meeting. In his speech last week, Kudlow, who just a few months ago was perhaps the Trump administration's biggest advocate of a negotiated settlement, accused Beijing of stonewalling.

Chinese officials say they are giving more serious thought to how to resolve the tensions with Washington than is apparent in public.

One official in Beijing, who asked not to be identified, likened the current state of the internal Chinese debate to that of a scolded misbehaving child still in a sulk but not yet ready to recognize the errors of their ways. The official said Beijing's expectations were also low for the G-20 meeting and Washington hadn't helped matters by setting out a provocative list of preconditions.

Best Expectations

"At this point I think a lack of new hostilities would be the best that can be expected" of the forthcoming talks between Trump and Xi, said Prasad, the Cornell economist.

That would mean Trump holding off tariffs he has threatened on a further \$267 billion in Chinese goods -- levies which would hit many consumer products and thus be politically

unpopular. Another possible outcome would be for the White House to put aside plans to increase the 10 percent tariff on \$200 billion in Chinese goods imposed last month to 25 percent come Jan. 1, as planned, in exchange for new commitments from China.

Hardline Rhetoric

The likelihood of that appears low for now. Even administration free traders like Vice President Mike Pence are increasingly using hardline rhetoric towards Beijing. In one recent speech, Pence laid out what was read in Beijing as a call for a new Cold War.

Pence is important because he could lay the groundwork for the Trump-Xi meeting during a series of summits in Asia next month that Trump elected to skip. The vice president will be traveling to Papua New Guinea for the Asia-Pacific Economic Cooperation meeting and to Singapore for a meeting of leaders from the Association of Southeast Asian Nations at which China will also be represented. But it is unclear exactly who Pence would meet with.

Scott Kennedy, a China expert at the Center for Strategic and International Studies in Washington, said one barrier to a deal was the confusion in Beijing over Trump's bargaining tactics. Chinese officials, he said, were still unclear whether Trump was a genuine China hawk or ready to strike a deal and betray hardliners who are demanding massive Chinese concessions or pushing for a long-term decoupling of the two economies.

"Every hawk's nightmare is that the president will flip and betray them," Kennedy said.

– *With assistance by Miao Han*

(Updates with Trump tweet in 11th paragraph.)

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HON

HONEYWELL INTL

146.04 USD ▼ -1.44 -0.98%

CAT

CATERPILLAR INC

115.05 USD ▼ -0.58 -0.50%

CNY

China Renminbi Spot

6.9435 CNY ▼ -0.0054 -0.0777%

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