



Economic Flash!

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China-US Trade: What's the Big Deal?

- Friday's White House announcement about progress on China-US trade talks made a big deal about no deal at all. We admit to having been initially impressed by the headlines, but after a long weekend of sober second thought, it's clear that this announcement was more about calming markets and diverting attention from other news stories (Syria and impeachment perhaps?) than about any real developments in ongoing talks. Looking beyond the headlines, this is merely a preliminary deal about a preliminary deal.
- Indeed, it's possible that we are no further ahead than we were in early May, when trade talks suddenly broke down between the two parties. On the Chinese side, those earlier talks had been led by Vice-Premier Liu He, the very same person that Trump met with last week. At that time, there were apparently some 100 pages of text on which the two sides had already agreed. The stumbling blocks included issues pertaining to the openness of the internet in China, the wording around exchange rates, and most importantly, US demands for China to legislate changes in laws pertaining to intellectual property and forced transfers of US technology to Chinese partners.
- What's changed isn't that China has agreed to these demands. Instead, the White House is now willing to characterize the toughest issues as items to be dealt with in a "phase two." In short, the US wants to tally up a partial victory to show voters and worried business leaders some progress, rather than hold out for a signed deal on the items that had the talks break down only months ago.
- Unfortunately, as a very partially completed homework assignment, the grade we can assign to this effort, in terms of reducing trade frictions and business uncertainties, isn't very high. The US has only agreed to postpone a small tariff hike due to come into effect this month, but has left all of the existing tariffs, and a new package of consumer goods tariffs set for December, in place.
- Don't forget that at one point in April, the administration's message was that a full deal was nearly in hand. Now we're only at a partial deal that isn't as nearly at hand. China's state media included a warning to the US not to "backtrack" on even this progress, a reminder that they made that accusation against the White House when the April deal fell apart.
- So the big deal about China-US trade is that last week's news was no big deal at all. If there's hope, it's that it's a reflection of the Trump administration's desire to have something positive to report on trade talks, and that same desire might be what it takes to prompt a softer line that allows for a true rolling back of trade tensions at some point before the November 2020 elections.

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