

افغانستان آزاد – آزاد افغانستان

AA-AA

چو کشور نباشد تن من مباد بدین بوم و بر زنده یک تن مباد
همه سر به سر تن به کشتن دهیم از آن به که کشور به دشمن دهیم

www.afgazad.com

afgazad@gmail.com

European Languages

زبانهای اروپایی

DECEMBER 4, 2018

by JACK RASMUS

05.12.2018

A US-China Trade War 'Armistice'?

The first reports emerging from the G20 meeting in Buenos Aires today, December 2, 2018, are that Trump and Xi have agreed to put their trade war on hold, a kind of 'trade war armistice', at least for the next 90 days.

Trump entered into his meeting this past weekend with China's president, Xi, having imposed \$50 billion in tariffs at 25% on China goods imports last July, to which another \$200 billion was added thereafter. Tariffs on the \$200 billion were set at 10%, but were scheduled to rise to 25% on January 1, 2019. Before the US November elections, Trump further threatened to add a further \$267 billion if China continued to refuse to meet with the US. But China didn't take the bait. Trump's strategy was transparent. His plan was to lure China into negotiations before the US elections so he could act tough for his political base before the US elections. China refused to be sucked in and refused to come to Washington to be played by Trump. Instead, it agreed to meet at the G20 gathering this weekend, at a more neutral setting and after the US elections.

In the lead up to this weekend's G20 US-China meeting, Trump sent conflicting signals to the Chinese. On the one hand, Trump praised China's president Xi personally, while announcing the existing 10% tariff hikes on the \$200 billion would rise to 25% next January 2019 and that another \$267 billion would follow if China did not meet with him. Meanwhile, China's counter tariffs on US imports were levied at 25% for its first \$50 billion tariffs and set at only 10% on the additional \$60 billion on US goods.

However, to date the US-China trade dispute is more like a trade skirmish than a trade war. The initial first \$50 billion in tariffs levied by both US and China this past July have

been selective. Most have not yet had a significant impact on their respective economies thus far after only four months in 2018. But in 2019 that \$50 billion would start to take have an impact. Moreover, the \$200 billion additional US tariffs levied at only 10% have been largely offset by a roughly equivalent 10% decline in the value of China's currency, the Yuan. A rise in \$200 billion US tariffs, from 10% to 25%, in 2019 would have an impact. The likely response by China would be to raise its second \$60 billion tariffs on US imports by an equal amount, from current 10% to 25%. It could also add more non-tariff barriers, or slow its purchase of US Treasury bonds, or block approval of mergers of US companies globally with operations in China, or encourage boycotts of US goods in China, or allow its currency to devalue well below the current 10% decline. These are measures that are typical of true trade wars, but which have not been employed as yet by China or the US. Sparring with tariffs are just initial moves, especially when tariff rates are relatively low, selectively applied, and not fully implemented yet.

While the US and China are clearly on the brink of a bona fide trade war, until the G20 meeting they have not quite taken that last step. The Trump-Xi meeting at the G20 thus represents a kind of a trade policy 'rubicon' which neither has crossed as yet. And if the initial reports coming out of the G20 meeting are accurate, then Trump and Xi have so far continued to decide not to cross the river of no return with regard to a war over trade.

The question is why the apparent 'armistice' in the trade war? Why, after months of threats and warnings aimed at China, has Trump decided to back down? For that's exactly what the agreements with China at the G20 represent: Trump has backed off, making concessions, while the Chinese have only reiterated proposals they publicly offered over the course of the last six months.

The reasons for the Trump retreat lay in the significant changes in economic conditions since last spring. At the time Trump launched his 'trade war' the US economy was accelerating due to multi-trillion dollar tax cuts for investors and corporations; the global economy still appeared to be growing nicely; US profits were rising 20%-25% and stock markets booming; and the Fed, the central bank, was still relatively early in its scheduled interest rate hikes. But that's all changed.

With growing indications that the global economy was slowing—with another recession in Japan and German and Europe economies contracting and weakening facing the UK Brexit and Italian bank problems—the US and global stock markets in recent months had begun to retreat noticeably. Early signs of US economic slowdown in 2019 have also begun to emerge, especially in construction and autos. Japan is in recession. Germany's

economy is contracting, with Europe not far behind facing imminent crises as well in the UK's Brexit next March and growing debt refinancing problems in Italian, Greek and other Euro banks.

Faced with these looming economic realities, as well as growing political pressure at home, Trump eagerly sought the meeting with Xi at the G20 gathering despite continued and intensifying faction-fighting between the factions on his US trade negotiating team.

Those factions and divisions among the US elite concerning center around three issues: first, access by US bankers and multinational corporations to China markets, especially getting China to allow a 51% or more ownership of US corporate operations in China; second, China increasing its purchases of US exports, especially agricultural and energy; and third, most important, China agreeing to slow its development of nextgen technologies like cybersecurity, artificial intelligence, and 5G wireless—which has assumed the codename in the US of 'intellectual property'. Anti-China hardliners—Robert Lighthizer, US office of trade director, Peter Navarro, special advisor on trade, and John Bolton, long time anti-China hawk and national security adviser to Trump—allied with the Pentagon, military industrial US corporations, and intelligence agencies—all preferred a trade war with China to achieve the technology objectives. They have been engaged in an internal US faction fight since last April with the two other US factions—the bankers and multinational corporations whose priority objectives have been to get open markets and majority ownership rights for US businesses, especially banks, in China; and US heartland agricultural and manufacturing exporters, who represent Trump's red state political base, who want a return and an expansion of China purchases of US exports.

Since this past summer, the Lighthizer-Navarro-Bolton faction have clearly had Trump's ear and have prevailed ensuring technology transfer is at the top of the list of US trade negotiations priorities. However, with the weakening of the stock markets, indications of economic slowdown coming, and growing US business concerns of a bona fide US-China trade war deepening in 2019, Trump has shifted his position toward a softer line in trade negotiations with China apparently retreating closer to positions of the other two factions in US-China trade negotiations. That softer line is evident in the G20 meeting tentative agreements announced by Trump and Xi.

Put another way, facing the shift to a bona fide trade war in 2019—in the midst of a slowing global and US economy and a likely steeper correction in US stocks and financial markets—Trump met Xi at the G20 and 'blinked', as they say.

That Trump clearly retreated is undeniable in the content of the announcement following his meeting with Xi, although a Trump retreat is not the likely ‘spin’ it will be given in the US corporate media this coming week. The agreements will be characterized as a mutual ‘pause’ of some sort in what appeared as an inevitable trade war commencing January 2019.

But a consideration of the substance of the verbal agreement between Trump and Xi released this past weekend shows that Trump clearly backed off while Xi simply reiterated what the China team has already offered Trump and put on the table the last several months.

Here’s what was agreed in broad principle, at least according to early reports:

- Trump agreed not to allow the scheduled January 1, 2019 increase in US tariffs on \$200 billion of imports from China to rise, from the current 10% tariff rate to the 25%.
- Trump agreed not to move forward with his threat of another \$267 billion tariffs on.

These represent two clear concessions by Trump and amount to reversals of prior US positions. What about China’s response? Unlike Trump, there was no clear retreat from previous positions, i.e. concessions.

- China agreed to increase US purchases of agriculture goods (actually a restoration of prior levels) “immediately”, in order to ease the US trade deficit with China and boost US farmers and agribusiness. But China had already publicly offered to buy a further \$100 billion in previous months. The joint communique coming out of the meeting only indicates to increase US purchases ‘in accordance with the needs of its domestic market’. The \$100 billion is thus more a restoration of previous levels of China purchases of US agricultural and manufacturing exports.

- China agreed to open its markets to US banks and businesses further. But it had already also announced earlier this year it would allow 51% foreign ownership, and suggested it could even go to 100% in coming years. So this too was an ‘offer’ it had already made to the US this past summer.

What about the key tech transfer issue that has split the US elite and the US trade team? That primary demand of the US hard liners, which seemed paramount in preceding months, has been tabled for future discussion. Both US and China have only agreed to discussions for the next 90 days “with respect to forced technology transfers” and related issues. (Reuters report by Roberta Rampton and Michael Martina, 12/2/18, 1:23pm ET). So no agreement on technology. Just a mutual face-saver to meet again and agree “to further exchanges at appropriate times”.

Meanwhile, Trump retreats from raising tariff rates from 10% to 25% and agrees to drop threatening another \$267 billion, while Xi simply restates prior offers about more purchases agricultural goods and more US banker access to China markets.

If China's objective of the Buenos Aires meeting was to get Trump to halt imposing higher and more tariffs—while conceding nothing except further talks on the technology issue—in that objective China has clearly succeeded. Trump will no doubt spin the additional agricultural purchases and more market access as China 'concessions'. But these were already conceded before the parties met in Buenos Aires.

In contrast, if Trump's primary objective, driven by his anti-China hard line US faction, was to get China to slow nextgen technology development and tech transfer, and concede on intellectual property issues, then Trump has clearly retreated at the G20.

Nor is it likely, at the end of the 90 day hiatus early next March 2019, that Trump and the hard-liners faction bargaining position will be any stronger. The 90 day 'armistice' in the emerging US-China trade war might even result in Trump back-peddling further should economic and political conditions worsen appreciably in the interim.

If the global and US economies continue to weaken and slow, which is highly likely, pressure by the other two US trade factions—the one demanding an agreement with China based on more access to China markets and the other demanding settlement so long as China agrees to more purchase of US goods—will only be stronger.

Political developments related to Trump's business relations in the US and with Russian Oligarchs eventually forthcoming by the Mueller investigation will also likely weaken Trump's position with regard to resuming a hard line on further tariffs on China. Japan's recession may also have deepened further by then. Germany's current economic contraction may have spread to the rest of Europe, which is also facing a confluence of additional problems involving the UK Brexit and the Italian bank problems next spring 2019.

Since 2008 US economic GDP growth has typically slowed dramatically in the winter quarter, and the first quarter 2019 US GDP is likely to again slow significantly from 2018 GDP growth rates. That will be especially the case if the US central bank, the Fed, continues its interest rate hikes into 2019, which appears likely to do at least through next spring. Trump may also have to focus more on saving his recent US-Mexico-Canada trade deal in Congress. All the above will almost certainly provoke a further decline in US stock and other financial markets as investors grow even more uneasy with Trump policies and increase pressure on Trump to postpone further tariffs on China trade.

More US banker-multinational corporate access to China and more China purchase of US farm goods could supersede US hardline anti-China faction demands for China concessions on tech transfer and nextgen military technology development.

More market access and more China purchases would be easy to 'spin' as huge gains by the Trump administration. They'll just keep talking about technology, while cutting off China companies' access to mergers, acquisitions and joint ventures in the US and in other US allies' economies.

Should that occur, the US-China so-called 'trade war' will prove as phony as have prior Trump threats to tear up NAFTA, or to fundamentally remake the South Korean-US free trade treaty, or to impose 25% tariffs on German autos and European imports, or Trump's steel tariffs which are riddled with more than 3000 tariff. While Trump talked tough, all have turned out to be 'softball' trade deals granted by the US.

Having 'blinked' after meeting with the Xi meeting at the G20 strongly suggests Trump's potential trade war with China has peaked and will now deflate over time. And should the more serious economic and political developments noted above also materialize in 2019, the deflation and slow retreat may look more like an implosion and a rout.

Trump's incessant bragging about his great skills and acumen in negotiating 'deals' will be revealed as so much egoistic bombast and exaggeration. And forthcoming economic developments and political events in 2019 may unravel more than just Trump's phony trade offensive launched last spring.