
FEARS OF A TRADE WAR WITH CHINA ARE RECEDING

- 26.04.2018

Forbes, APR 25, 2018

Charles Wallace , CONTRIBUTOR

I am a prize-winning financial journalist who covers trade issues

Opinions expressed by Forbes Contributors are their own.

President Trumps decision to send a large delegation to China to negotiate a tariff deal is a sign that the fears of a trade war may be receding.

Trump announced that he is sending Treasury Secretary Steven Mnuchin to China, along with U.S. Trade representative Robert Lighthizer and Larry Kudlow, the head of his economic planning staff.

Weve got a very good chance at making a deal. Trump said at the White House. While he gave no date for the visit, it is expected to be next Thursday.

Mnuchin and Kudlow are believed to think that China is ready for an accommodation with Washington after a speech April 10 by President Xi Jinping in which he announced plans to significantly lower tariffs on imported cars, one of Trumps key demands.

That comes after Trump imposed import tariffs on Chinese aluminum and steel, added tariffs on \$50 billion worth of Chinese goods, and is considering measures to punish China for alleged intellectual property theft. In addition, the Commerce Department last week banned Chinas ZTE firm from getting any US technology products for seven years, threatening the companys survival.

We view the openness to negotiations as a positive first step that could move the two sides to potential solutions on some issues, but there are many issues to resolve and plenty of potential pitfalls along the way, said Raymond James Washington analyst Ed Mills in a note to clients.

One of the pitfalls is the differences between doves and hawks in Trumps own administration. While Mnuchin and Kudlow are prone to compromise, Lighthizer has taken a hardline position against China and will be reluctant to give in while the pressure is on.

In addition, Beijing sees little gain in making large, pre-emptive concessions to satisfy still-vague US demands, especially as this could simply encourage Trump to roll out additional trade actions, said Michael Hirson, an analyst at Eurasia Group.

He added that only after both sides have slapped tariffs on \$50 billion of products can the real talks begin. Both sides will have demonstrated their resolve, and the political and economic costs of further escalation will motivate the two leaders to become more personally involved in reaching a deal, he said.

One motivation for Trump is to avoid provoking a Chinese retaliation against farmers in the Midwestern US, which could backfire on the Republican party in the midterm elections this November. Another is the need to enlist Chinese support for a nuclear deal with North Korea.

Kaynak/Source: