



China-US Trade Disputes (XVIII)

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New progress made in China-US trade talks

China and the US have agreed to continue trade talks in Washington this week after five days of negotiations in Beijing last week made ‘progress’, in an effort to reach a comprehensive deal to resolve trade conflicts of the two countries. We will continue to closely monitor developments in this regard.

China-US trade talks produce new progress

After preparatory discussions held by mid-level officials from China and the US in Beijing on 11-13 February, a US delegation led by US Trade Representative Robert Lighthizer and Secretary of the Treasury Steven Mnuchin stepped in for the high-level trade talks with Chinese Vice-Premier Liu He and his team on 14-15 February.

According to a White House statement, this round of trade talks covered a wide range of issues, including forced technology transfer, intellectual property rights, cyber theft, agriculture, services, non-tariff barriers, and currency. The two sides also discussed China’s purchases of US goods and services in order to reduce the US trade deficit with China.¹

Both China and the US hailed progress at the conclusion of negotiations. Chinese state news agency Xinhua reported that China and the US reached a ‘consensus in principle’ on major issues.² US

¹ <https://www.whitehouse.gov/briefings-statements/statement-press-secretary-regarding-china-talks/>

² http://www.xinhuanet.com/english/2019-02/15/c_137825071.htm

President Trump said that the trade talks brought the two countries within reach of a breakthrough in their trade relations. 'We're a lot closer than we ever were in this country with having a real trade deal,' Trump said. The two countries also agreed to work towards a 'memorandum of understanding' (MOU).

Meanwhile, the US administration also acknowledged that 'much work remains' before a deal can be struck.³ According to media reports, the two sides remained at odds over US demands for China's 'structural changes' in intellectual property protection, reciprocal market access, industrial subsidies, etc., and China was said to be making only 'cosmetic, non-impactful offers' on these issues.

Trade talks will resume this week in Washington at the ministerial and vice-ministerial levels. If China and the US fail to reach a deal by 1 March, the US could boost the additional tariff rate on US\$200 billion worth of Chinese imports from 10% to 25%. However, Trump indicated that he could extend the deadline if both sides are close to reaching a deal, and that he was looking forward to meeting Chinese President Xi Jinping in the near future to discuss and agree on some of the difficult issues. Although a meeting between the two leaders has yet to be scheduled, it was reported that Trump would like President Xi to come to his Mar-a-Lago resort in Florida in mid-March, while China wanted the two leaders to meet on the sidelines of the annual Bo'ao Forum for Asia, which was scheduled for late March.

Our take

The public mention of an MOU by China and the US is a first in various rounds of trade talks, which signals major progress in negotiations, and the MOU could form the basis of a comprehensive trade deal between the two countries. However, only 11 days remain until the 1 March deadline for trade talks between China and the US. Given that the trade negotiations touch on the sensitive issue of 'structural changes' in China's economic policies, on which the differences between the two countries are deep, and that the US insists on an enforcement mechanism of the promises by Beijing that could carry the threat of US tariffs, we do not expect a comprehensive trade deal to be finalised by the deadline. That being said, it is possible that an agreement of some sort could be reached to extend the 1 March deadline (possibly for 60 days as rumoured) to allow for further negotiations, and to keep the US tariffs on US\$200 billion of Chinese imports at 10% in the meantime, in our view.

³ <https://www.whitehouse.gov/briefings-statements/statement-press-secretary-regarding-china-talks/>

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