

## China-US trade talks: A likely stalemate

We expect no material change in the current deadlock between China and the US over trade



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### China's view: If the US withdraws tariffs then China will too

The world is focusing on Liu He, economic adviser to Xi Jinping, as one of the negotiators in bilateral trade talks with the US. But this time the spotlight should be on Wang Qishan, the firefighter of China, now the vice president who has "unlimited" tenure with Xi Jinping. Wang's return to the government with this very important role is not only to continue the anti-corruption campaign, but also to deal with the new Sino-US relationship.

We expect that Wang will only offer what China has already announced - opening up the financial markets and cutting tariffs on imported automobiles.

If the US withdraws tariffs then China will also withdraw tariffs. We believe the chances are low as this would not change the overall trade deficit of the US economy. And, in fact, China alone could not change the US's trade deficit position.

### US intention: Is it trade or Made in China 2025?

We need to be clear on the objective of these trade talks to assess the possible results of this negotiation. Is it a talk on trade or is it a talk on China's strategic plan, Made in China 2025?

The tariffs that the US is to impose on imports of Chinese electronics and machinery, as well as automotive and aerospace products, are a result of the US Section 301 investigation into policies that force foreign companies in China to transfer intellectual property to their joint venture partners in China. Joint venture companies may not think they are forced to do so as they share profits from the businesses.

If the talks start with the US's intention to stop or slow down China's national strategic plan, then the talks could end quickly. China is aware that it lacks the ability to be self-sustained in core high-tech products. This would only speed up achieving Made in China 2025.

## Expect a deadlock

These trade talks are more than who blinks first in the negotiations.

From the analysis we laid out, we expect the talks to yield little in terms of results.

This would be negative for trade-related sectors, including logistics services and related manufacturing activities.

However, this would have little impact on China's GDP growth in the next two years because we expect China to boost investments in high-tech sectors to offset the loss in net exports and related economic activities. We keep our China GDP forecasts at 6.8% in 2Q18, and 6.7% in 2H18 and 2019.