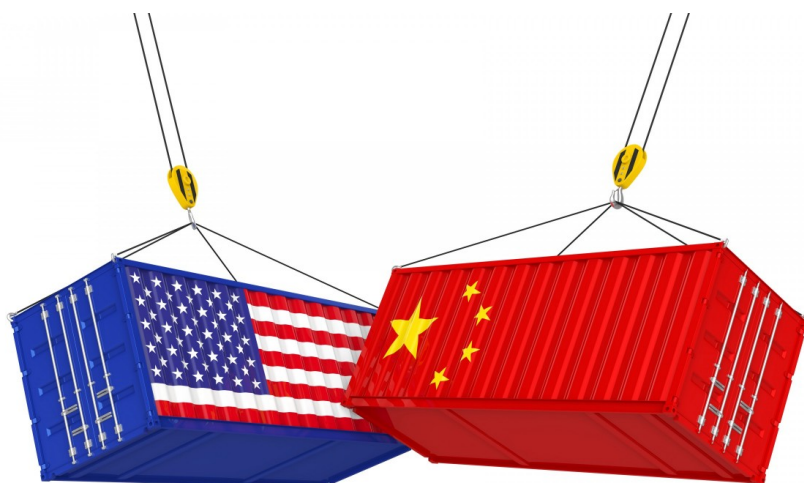


## Trade talks: US and China still too far apart

Among all the negative news about the relationship between the US and China, some positive signs have started to emerge as well. But there's scant evidence that the two sides are willing to change their positions enough to break out of the current deadlock



### The good and the bad

At first glance, recent news provides at least some reason to be a bit more optimistic about the US-China trade talks, to be resumed this Thursday. President Trump says that a trade deal could be achieved 'sooner than you think' and the news of Chinese companies increasing their purchases of US agricultural goods last week, using a waiver from retaliatory import tariffs, is a sign of good will. Today's news that China could be prepared to [buy additional soy beans](#) adds to the optimism that a deal might be struck.

At the same time, the US plans to limit the funding of Chinese companies through US capital markets and has announced a blacklist of Chinese companies, along with sanctions against Chinese officials involved in the clamp down on Uighur people in the West of China. This shows that tensions between the two super powers remain high.

## Trump has boxed himself into a difficult corner

Regarding the trade issues specifically, caution is warranted. Things have become complicated for President Trump. Polls show US voters are increasingly worried about the effects of his economic (read: trade) policies, and with just over a year to go before the next Presidential election, it would behoove him to strike a quick 'mini' deal. This would substantially diminish the economic uncertainty which has caused US business sentiment to plunge and put a lot of investment on hold.

## Trump not ready yet

But the chances of such a deal happening quickly seem low, as Trump would need to take out at least some of his demands which are clear red lines for China.

The President has said he doesn't want a mini deal, indicating that he's not ready to water down his demands. At least not yet. We think it's possible that a further deterioration in the US economy could lead Trump to take a few steps back, but he has to walk a fine line. Trump won't want to give in so much that he's viewed as a loser in the trade war. He recently said he still wanted a broad agreement rather than something narrower in scope. Trump is feeling the pressure from Democrats and hard liners within his own party to remain tough on China and push for more than just a deal on trade flows.

But this gives him little room for manoeuvre since China is adamant it will not give up its sovereignty in setting industrial policy objectives or its autonomy in granting direct or indirect state subsidies to Chinese firms. For China, it's also unacceptable that only the US can decide whether compliance with a deal is sufficient to undo the tariff hikes.

For now, both American and Chinese negotiators will be reluctant to acquiesce. This means the best obtainable result for the upcoming round of talks would be for the US to put on hold higher US tariffs on the 15 October and 15 December in exchange for a Chinese commitment to step up buying of American agricultural and energy products, or something very similar to this.

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