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Snap

Renegotiating trade from a China perspective

The development of the trade negotiation process should be long as China learns about the US' negotiation tactics, and has a back-up from a policy-stimulated economy. Technology should be the focus of the renegotiation



Source: Shutterstock

Donald Trump, Xi Jinping. President Donald Trump, right, with China's President Xi Jinping, left

There is a reason why China wants to renegotiate

We have long believed that the trade war is more than about trade, it is about technology. And during the last couple of months, the US has urged its Western allies not to use China's 5G products as the US believes that there is a security concern.

Since then the Chinese government has tried to have more of a say in the trade negotiations. For example, China has made the penalty system of any trade deal reciprocal, which means the US could be penalised if it does not comply with a signed deal. That was the beginning of China trying to move into the driver's seat of the trade negotiation.

The Chinese economy backs up renegotiation

The Chinese economy has been supported by fiscal stimulus and monetary easing. It is due to these stimulations that the economy grew at 6.4% year on year in 1Q19, the same speed as in 4Q18. This gives China more chips on the trade

negotiation table.

China is prepared to use more stimulus and monetary easing to support this trade renegotiation.

On the same day that the US announces a possible increase of tariffs this Friday (10 May), the Chinese central bank, PBoC, cut the required reserve ratio (RRR) of smaller banks to divert even more liquidity to small, private companies.

We see this easing as part of the back-up for the economy and that the Chinese government is prepared for a long negotiation process.

[Our trade research specialist Raoul Leering has a note on US raising tariffs](#)

https://think.ing.com/snaps/trump-the-tariff-man-strikes-again/?utm_campaign=May-06_trump-the-tariff-man-strikes-again&utm_medium=email&utm_source=emailing_snap

What to watch for in the coming months

1. We would want to see if Liu He, the head of the trade negotiators from China, will join the upcoming trip to the US for further negotiations. This will signal how serious China is and indicates that China and the US are going to talk further.
2. Whether China will speed up fiscal stimulus and continue with more monetary easings. These will become signs as to whether China plans a tougher stance and therefore longer negotiations with the US.
3. The higher tariffs do not only affect Chinese exporters but also US consumers unless the US can find substitutes for Chinese goods in a short period of time. The US policy response will also be a variable in the trade negotiation.

We are less worried about yuan volatility

We believe that USDCNY and USDCNH will become less volatile compared to yesterday's rollercoaster ride. The fixing mechanism should help to stabilise the yuan, and strict implementation of capital outflow policies will help the yuan not to depreciate too fast to create a worrying sentiment of capital flight.

These are the major reasons we keep our USDCNY forecast at 6.75 by the end of 2019.

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