

Snap | 1 August 2019

Trade talks: Tariff threat has not subsided

No signs of real progress have come out of trade talks between the US and China which means a new round of tariffs is still looming



Chinese Vice Premier Liu He, centre, with U.S. Trade Representative Robert Lighthizer, right, and Treasury Secretary Steve Mnuchin before talks in Shanghai

Mutual criticism has set the tone for the latest round of trade talks between the US and China, despite positive summary statements by both sides. The Chinese communist party's official newspaper wrote that the US seems to have forgotten the promise of 'equal and mutually respectful trade talks' and criticises the US for using fear as a means to pressure China into concessions. From the American side, accusations by President Trump that China is not living up to promises of more agricultural imports and his view that China is stalling the negotiations until the US presidential elections clearly shows tensions have barely eased.

We expect a further escalation in the trade war before any deal is closed

The US will need to take a step back if it's going to reach a deal with China, and you can read our arguments for that [here](#). For now, there are few signs the US is willing to do so. And that's why we

can't find any reason to think the next round of trade talks will be successful. In fact, we expect a further escalation in the trade war before any deal is closed, [as we recently argued](#).

In our view, there will be a deal in the end. China increasingly feels the effects of the trade war as exports to the US are declining and the trade tensions [scare foreign companies out of China](#). Last week Hasbro Inc, one of the world's largest toy makers, announced a shift of production to Vietnam and India. On Wednesday, the major sportswear maker Puma announced that it is speeding up its relocation to other Asian countries including Vietnam.

At the same time, President Trump needs a deal to show his electorate that he is able to get a trade deal done. So, both countries have a strong incentive for a deal in the end. That's why we expect that, after a new round of mutual tariff hikes builds up the pressure a bit more, a deal will be cut towards the end of the year