

Why the U.S.-China Trade Truce May Not Last

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- ▶ Mnuchin says ‘we’re putting the trade war on hold’ amid talks
 - ▶ Deeper reforms required to help cut bilateral trade imbalance
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U.S.-China Trade Dispute Truce Might Not Last

The U.S. and China declared a truce in their trade dispute over the weekend, but that will prove temporary if the world’s two largest economies fail to deliver on their vague commitments to re-balance trade.

“We’re putting the trade war on hold,” Treasury Secretary Steven Mnuchin said Sunday after the two sides released a [joint statement](#) a day earlier. “Right now, we have agreed to put the tariffs on hold while we execute the framework.”

For now, Mnuchin’s cease-fire declaration will soothe the nerves of investors worried that the world’s two biggest economies were on the verge of an all-out trade conflict. President Donald

Trump had threatened to slap tariffs on up to \$150 billion in Chinese imports, and Beijing vowed to respond in kind.

Trump on Monday tried to put a positive spin on the negotiations. “China has agreed to buy massive amounts of ADDITIONAL Farm/Agricultural Products - would be one of the best things to happen to our farmers in many years!” he said in a series of postings on Twitter. “On China, Barriers and Tariffs to come down for first time.”

Trump also suggested that the North Korea embargo is showing cracks before the nuclear summit with the U.S. scheduled for June 12. “China must continue to be strong & tight on the Border of North Korea until a deal is made,” Trump tweeted. “The word is that recently the Border has become much more porous and more has been filtering in. I want this to happen, and North Korea to be VERY successful, but only after signing!”

Trump’s statements came after Mnuchin called a truce in the trade war on Saturday following two days of talks between Chinese Vice Premier Liu He and senior American officials, including Trump. But it isn’t seen as a panacea to the months-long conflict.

The truce is “little more than a brief de-escalation of tensions,” said Eswar Prasad, a trade policy professor at Cornell University and former head of the IMF’s China unit. “The fundamental differences on trade and other economic issues remain unresolved.”

Asian stocks gained <https://www.bloomberg.com/news/articles/2018-05-20/stock-futures-climb-on-u-s-china-trade-war-pause-markets-wrap> Monday and U.S. equity futures jumped on the news that the trade war is on hold for now. Treasury yields nudged higher, taking the dollar with them.

Still, there's no guarantee that China's trade frictions with the U.S. won't re-emerge in the future, a foreign ministry spokesman told reporters Monday at a regular briefing in Beijing.

Read More on the Trade Talks:

- ▶ The [Commodities <https://www.bloomberg.com/news/articles/2018-05-21/from-oil-to-cotton-these-commodities-may-win-in-trade-truce>](https://www.bloomberg.com/news/articles/2018-05-21/from-oil-to-cotton-these-commodities-may-win-in-trade-truce) That May Win Big From a U.S.-China Trade Truce
 - ▶ [China-U.S. Trade Relations Heading Back to 1990s](#) : Credit Suisse
 - ▶ Time to let [win-win cooperation](#) define China-U.S. trade ties: Xinhua
 - ▶ Even \$200 Billion Cut [Won't Slash Trade Deficit <https://www.bloomberg.com/view/articles/2018-05-20/even-200-billion-isn-t-enough>](https://www.bloomberg.com/view/articles/2018-05-20/even-200-billion-isn-t-enough) : Michael Pettis
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During the talks, China and the U.S. agreed to “substantially” reduce the U.S. trade deficit in goods with China. Beijing promised to “significantly” increase purchases of U.S. goods and services, but there was no dollar figure attached, despite White House assurances that China would cave to its demand for a \$200 billion annual reduction in the trade gap.

China's state media put a positive spin on the outcome, citing an interview with Liu in Washington on Saturday in which he said the sides agreed avoid trade war and “stop slapping tariffs against each other,” the Xinhua News Agency [said <http://www.xinhuanet.com/english/2018-05/20/c_137191856.htm>](http://www.xinhuanet.com/english/2018-05/20/c_137191856.htm) . That people in both nations think their country lost shows the agreement is relatively fair and a win-win for each side, the Global Times said in a [commentary <http://opinion.huanqiu.com/shanrenping/2018-05/12064035.html>](http://opinion.huanqiu.com/shanrenping/2018-05/12064035.html) Monday.

Trump has an important strategic reason for removing the tariff threat against China: he needs Beijing's cooperation as he prepares for an historic summit with North Korean leader Kim Jong Un in Singapore on June 12. It's hard to imagine a peace deal with North Korea without the involvement of China, Kim's most important political and economic ally.

China Rhetoric

If trade talks with China fizzle, the president may soon feel pressure to clamp down again, especially with congressional elections looming in November. In their efforts to save the party's majorities in the House and Senate, Republicans will lean hard on Trump after his fiery anti-

China rhetoric and promises to help the working class in states like Ohio and Pennsylvania resonated with voters.

“As this process continues, the United States may use all of its legal tools to protect our technology through tariffs, investment restrictions and export regulations,” U.S. Trade Representative Robert Lighthizer said in a statement Sunday. “Real structural change is necessary. Nothing less than the future of tens of millions of American jobs is at stake.”

Trump remains preoccupied with the U.S. trade deficit and that will be difficult to shrink in the short term. It’s unclear how Beijing will ramp up buying of American products, even though the one-party state exerts greater control than most governments over the spending decisions of companies. Republican tax cuts and spending increases are set to inject fiscal stimulus into the U.S. economy that will stoke demand for foreign-made products.

It’s “difficult to contemplate” how the two countries could cut their trade imbalance by \$200 billion, said Victor Shih, a professor at the University of California in San Diego who studies China’s politics and finance.

“Even with a drastic reallocation of Chinese imports of energy, raw materials and airplanes in favor of the U.S., the bilateral trade deficit may reduce by \$100 billion,” said Shih. “A \$200 billion reduction would mean a drastic reduction in Chinese exports to the U.S. and a dramatic restructuring of the supply chain.”

Deal or No Deal: Can China Shrink U.S. Deficit by \$200 Billion?

<https://www.bloomberg.com/news/articles/2018-05-18/deal-or-no-deal-can-china-shrink-u-s-deficit-by-200-billion>

The U.S. made little progress forcing China to respect American intellectual property -- the issue that caused the U.S. to threaten tariffs in the first place. The joint statement said only that both sides “attach paramount importance to intellectual-property protections,” and agreed to cooperate more. China will change its laws and regulations in this area, including its patent law, according to the statement.

The statement also didn’t mention additional U.S. demands, including a halt to subsidies and other government support for the Made in China 2025 plan that targets strategic industries from robotics to new-energy vehicles.

And there was no mention of Chinese telecommunications maker ZTE Corp., facing a death sentence after it was cut off from American suppliers for allegedly lying to the U.S. government after flouting sanctions. Trump raised eyebrows last week when he instructed officials to give the company a lifeline.

“The statement was very short and general, and lacked specifics,” said Louis Kuijs, chief Asia economist at Oxford Economics in Hong Kong and a former International Monetary Fund researcher. “The broader tension is not resolved.”

– *With assistance by Andrew Mayeda, Kevin Hamlin, Xiaoqing Pi, Miao Han, and Jeff Kearns*

(Updates with Trump tweets starting in fourth paragraph.)