

China Economic Slowdown

US-China trade truce offers Beijing breathing space

Temporary stay on further tariffs releases pressure on China for big stimulus measures



Sensitivities are high over economic policy in Beijing as this month marks the 40th anniversary of the 'reform and opening' policies inaugurated by Deng Xiaoping © AP

Tom Mitchell in Beijing and Tom Hancock in Shanghai DECEMBER 2, 2018

Chinese president Xi Jinping has removed a black cloud that had been threatening to overshadow crucial economic policy decisions by securing Donald Trump's agreement to suspend the imposition of higher tariffs on Chinese imports.

The weekend truce with the US president will make it easier for Mr Xi and his top trade negotiator, [vice-premier Liu He](#), to resist domestic calls for stimulus measures to support China's slowing economy — which would undermine a campaign to stabilise the country's high debt levels.

China's leaders are due to map out economic priorities and strategies for the coming year at two important Communist party meetings later this month, beginning with an annual party "work conference" that is held every December.

Ahead of those meetings Mr Xi and Mr Liu will be relieved at Mr Trump's willingness to refrain from any further [tariff measures](#) pending three months of talks.

The US-China talks could begin as soon as December 12 when Mr Liu, according to people briefed on preparations for this weekend's meeting between the Chinese and US presidents, was [provisionally scheduled](#) to lead a negotiating team to Washington.

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Eswar Prasad, Cornell University

There is still, however, a wide gulf between the US and China on a host of critical and complicated issues.

Sensitivities are high over economic policy in Beijing as this month marks the 40th anniversary of the “reform and opening” policies inaugurated by Deng Xiaoping at an annual plenum of the party’s Central Committee in December 1978.

This year’s final Central Committee plenum, which has yet to be held, was supposed to be a celebration of that moment. Until Saturday it looked set to be held in more of a funereal atmosphere as a number of prominent Chinese scholars argued that Mr Xi’s more assertive policies vis-à-vis the US were backfiring.

As [China’s economic growth slows](#) as a result of Mr Liu’s campaign to reduce excess leverage in the world’s second-largest economy, the suddenness of Mr Trump’s trade war was an unexpected shock. In such circumstances the government could easily be tempted to turn to credit-fuelled stimulus policies to bolster growth.

“Among Chinese academics, there is a sense [Mr Xi] may have misread how far Trump was willing to go,” said Eswar Prasad, a China finance expert at Cornell University. “While most of them agree the US is being too harsh, there is concern China overplayed its hand while what little reform momentum there has been so far is lost.”

This weekend’s [Sino-US truce](#) should help Mr Xi fend off such criticism while also allowing Mr Liu greater space to pursue reforms that otherwise would have appeared – in the context of an escalating trade war – to be humiliating concessions to Mr Trump.

Reflecting these domestic political sensitivities, Wang Yi, China’s foreign minister, this weekend stressed Beijing’s willingness to buy more US products “on the basis of [China’s] own needs” and embrace reforms that would address “the legitimate concerns of the US as part of the process of reform and opening up”.

In private meetings ahead of Xi Jinping’s dinner showdown with Donald Trump on Saturday night, Chinese officials did their best to project confidence.

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“Their main messages were they really had not been hurt much by the tariffs so far, were doing a lot of things the US wanted as part of their own reform and opening policies, and had already made a number of constructive proposals,” said one person who acts as one of the many back-channels between the two presidents’ administrations.

Mr Xi and Mr Liu could, however, find themselves in the same predicament they were in last week [if the next round of China-US trade talks fail](#)], especially after Mr Trump secured G20 consensus on simultaneously pursuing reforms to the World Trade Organization that will target — in a trilateral push with the EU and Japan — China’s distinctive model of “state capitalism”.

“We hope today’s positive news becomes something more permanent,” said Kenneth Jarrett, head of the American Chamber of Commerce in Shanghai. “For that to happen the Chinese government must address longstanding concerns regarding market access restrictions, weak intellectual property rights protection, unfair industrial policies, the slow pace of economic reforms and lack of regulatory transparency.”

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