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Xi Issues Taiwan Warning at Summit With Trump. What It Means for Trade. -- Barrons.com

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President [Donald Trump](#) and Chinese leader Xi Jinping spent their first day of bilateral talks on Thursday showing an eagerness to manage the economic rivalry between their countries.

Trump talked about the possibility of increased economic ties, and Xi held out the possibility of U.S. companies enjoying "even broader prospects in China."

Even the most glaring point of friction in the talks -- a warning from Xi that differences over Taiwan could lead to conflict and jeopardize the relationship -- could be an opportunity to dial down the tensions if the two economic powerhouses find ways to navigate their complicated relationship.

"Trump and Xi are staking out their positions on geopolitical issues that are of particular importance to each of them, while signaling some openness to being more accommodative on other subjects like trade, technology, and market opening," says [Eswar Prasad](#), a Cornell economics professor and former head of the China division for the [International Monetary Fund](#).

China greeted Trump and a delegation of more than a dozen chief executives from U.S. companies that have strong ties to China. At a state dinner, Trump invited Xi for a visit to the U.S. on Sept. 24.

The two will meet again on Friday, when analysts expect more nuanced conversations on technology, trade, Iran and Taiwan -- and more evidence of where the relationship is headed. But investors were already dissecting the summations of the talks issued by the two countries afterward. One notable item: issues like U.S. access to critical minerals and Chinese access to critical technology weren't mentioned.

China's readout noted Xi's warning that any mishandling of Taiwan could result in a "an extremely dangerous situation." On the other hand, it also noted his comments about the possibility U.S. companies could enjoy "even broader prospects in China" as the countries seek "constructive strategic stability."

Taiwan didn't make it into the White House's readout, which noted discussions about: ways to bolster economic cooperation and increased market access for U.S. businesses; more Chinese purchases of agricultural products; building on recent progress to curbentanyl flows; and China increasing investments into U.S. industries.

The White House also said both leaders agreed Iran can't have a nuclear weapon and that Xi opposed any efforts to charge a toll in the Strait of Hormuz. Xi also expressed interest in buying more U.S. oil, the White House said. None of that was in the readout from China, who is the biggest buyer of Iranian oil.

[Rory Green](#), head of China research at TS Lombard, is watching to see if Trump recommit to the One China Policy, an ambiguous diplomatic rhetoric that lets it maintain an unofficial relationship with Taiwan while maintaining the line that it doesn't support its independence. President [Joe Biden](#) had slightly fudged that line, Green says.

If Trump recommit, that could reduce the geopolitical risks by suggesting to Beijing that diplomacy could work, and that it doesn't need to play hardball in terms of invading Taiwan, especially as Lai Ching-te, Taiwan's president and a vocal supporter of the island's sovereignty, is losing popularity, Green says.

Others on Wall Street have wondered whether there will be a bigger shift in language from the U.S., possibly including Trump dialing back arms sales to Taiwan in return for other help with Iran.

But China watchers play down that prospect.

"These bigger moves that Wall Street is expecting, such as an Iran for Taiwan grand bargain, aren't something the administration has been contemplating as part of the summit," said [Leland Miller](#), commissioner at the [U.S.-China Economic and Security Review Commission](#), which advises Congress.

"What Trump wants is to set a floor on the relationship, get some purchases, and create enough momentum to get Xi to come to the U.S. in September," Miller added.

That may be enough to cheer investors. [Brendan Ahern](#), chief investment officer at KraneShares, says the summit could boost valuations in Chinese stocks as geopolitical clouds lift, especially as the market is filled with technology stocks Ahern says are cheaper than global peers.

"Stability is the watchword of the summit thus far, and that will presumably be mostly good news for businesses on both sides, as the leaders appear to want that stability to continue at least for the next year," said [Daniel Kritenbrink](#), partner at consultancy The Asia Group and previously Assistant Secretary of State for East Asian and Pacific Affairs. He noted U.S. CEOs have been more involved in it than he had expected.

If the summit results in lowering tensions, Green says, it will "significantly reduce" the risk of further destabilizing export restrictions on technology and rare-earth metals.

Few expect significant easing of restrictions on China's access to critical technology equipment, though there could be signaling of a pause in further curbs. Investors will keep close tabs on any developments related to China's rare-earth exports to the U.S.

China may be willing to put a stronger renminbi on the table, something the U.S. has been seeking for years, Green says. That said, it's not a major give for China as Xi has advocated a stronger currency of late, especially as he tries to bolster domestic demand and increase China's self-sufficiency. Plus, its technology sector's competitive edge means a stronger currency won't hurt market share too much, Green adds.

There will be more efforts to manage the rivalry that could create some opportunities for certain companies.

"Expect a board of trade and a board of investments to materialize," Miller says. "But unlike past bilateral mechanisms, this one isn't intended to meaningfully expand trade or investment flows; instead, it will aim to manage those areas in nonstrategic sectors at a relatively low level and set a floor on the relationship."

While Miller says deals could be announced, he expects them to be in nonstrategic areas and small, not intended to wow the market. Trump said in a Fox News interview that China has agreed to buy 200 Boeing planes -- fewer than Wall Street had been expecting.

The Board of Trade could also open the door to reductions on tariffs to accommodate Chinese purchases of U.S. goods, but Miller cautions investors to not read too much into any adjustments.

"A far larger tariff reordering is likely in the coming months once the administration begins rebuilding the tariff wall following the conclusion of the latest 301 investigations," Miller says.

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