

# TOO MUCH PESSIMISM ABOUT CHINA-US TALKS

Nearly every expert seems to be pessimistic about any progress being made during the US-China talks this week, citing the “low level delegations” attending, but there are many signs from both sides of an incipient deal, not to mention the obvious economic and political incentives to achieve such. Famous Presidents in any country very rarely oversee a significant economic decline; rather, many Presidents often do not maintain power in such a decline. Widespread pessimism among experts is also due, like a Pavlovian response, to the long-standing stubborn stances of Xi and Trump, continually fed via leaks of tough negotiating rhetoric in the media and “insider” talking points that these experts depend upon for their livelihood. Lastly, many experts are patriotic and just cannot imagine their side compromising to the benefit of the “enemy.”

## The 2025 Problem

While China is now opening many economic sectors to foreign competition in a similar way that foreign pressure did for Japan in the 1980s, China has said it won't even negotiate on the key issue: government support for dominating key tech industries, called the Made in China 2025 plan; yet it says it is not to blame for the trade ructions. So in the end, it comes down to whether China will compromise on this plan. Xi has actively promoted it in the past, so it is difficult to reverse his stance, but China may end up crediting Europe for changing its mind on this program, as FTA negotiations with it would likely require ending state control and subsidization of such. Or it may credit other factors, including the headline People's Daily editorial from the recent Beihaide summit, promoting “Reform and Opening to the World” in order to prevent the appearance of capitulating to the US, in which case China could submit its efforts for boosting its high tech industry to vetting by the WTO since it should be the most expert, neutral arbiter of such.

Notably, the 2025 plan, which has never been formally legislated, has been a taboo topic in the Chinese media for many weeks now, allowing China a quiet interlude before potentially compromising on it. At a minimum, China is trying to hide its aggressive state-led plan from global attention, which is a form of backtracking from Xi's deviation from the famous Deng Xiaoping philosophy of hiding China's rise. The fact that many countries are now aggressively opposing Chinese investments and technology transfers has not gone unnoticed throughout China. Indeed, much more media is being allowed to speak negatively about China's over-reaching and it would not be too surprising if the 2025 appellation was never used again.

## “Low Level Officials”?

The top negotiators in US and China probably dislike each other so much now, that it is better not to have them facing each other right now, but both sides are under pressure to act before the \$200BB of tariffs begin. Indeed, Xi has reportedly told his team to get something done, an instruction that I have not heard of before and, thus, seems highly significant. Lastly, it is possible that Xi has lost confidence that Liu He, the previous lead negotiator with little government or international negotiation experience, can achieve results in this process. However, Liu He and the US China hawks must have vetted their respective “low level” negotiators' mandates and will vet the results of the talks, so the talks are not actually “low level” at all.

David Malpass, who will lead the US delegation, is the most prominent economist in the US Administration and the only one with extensive previous experience in international governmental negotiations. He is very trusted by the US-China hawks and will not set his own agenda. He is trusted by Mnuchin, who has been greatly sidelined in these negotiations after his earlier attempt to enact a China deal that the hawks disliked. Thus, Malpass has the trust of both wings, which is highly significant. Meanwhile, the PRC Commerce Minister is the best official placed to talk about the 2025 plan, along with nearly every other trade issue, so it is not actually a low level summit. Indeed, the Commerce Ministry is routinely China's most protectionist ministry, so if a deal, or the outline of such, can pass his vetting, then it has a good chance of success. Meanwhile, there are reports that the US has drawn up a new, comprehensive list that is somewhat easier for China to accept, although clearly not one that excludes major elements of 2025 plan.

## A Timeline

There have been reports in major media outlets, citing sources from both sides, that a timeline for a deal by November has been struck. This is a new concept and while it is unlikely to be cast in stone, it is unlikely that this was not approved by the top players on both sides. It is quite possible that, like the US-EU agreement, this timeline of continued negotiations, if the major 2025 plan elements are agreed to be eliminated, could be used by both sides to call a “time out” on the \$200BB of additional tariffs and retaliatory measures, at least until after the Congressional elections. Similar to the EU agreement, this would likely improve Trump's (and the Republican Party's) image among farmers and traditional Republican free-traders.

## Conclusion

China-US tensions are unlikely to ever be low again, but these talks could be a major step to achieve some agreements, as both leaders need breathing space politically and economically. Neither Trump nor Xi are as omnipotent as purported and many wonder if the 2025 plan is worth this risk of great tumult. China will achieve hi-tech success and be a leader globally, with the only question being how fast. It seems to now be realizing that the world, led by the US, will not countenance it using widespread state-led methods to achieve such as quickly as it desires. If this is what China means by containment of its rise, it is a valid containment of such methods by the world's developed market-based nations.

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