



Sinology

by Andy Rothman

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- ✳️ Calling China a partner rather than a competitor, and apparently lifting restrictions on U.S. tech sales to Huawei, Trump seems to have put the bilateral relationship on a more productive path after a G-20 meeting with Xi.
- ✳️ I remain optimistic about prospects for a trade deal, because Trump seems to recognize that a trade war with China would jeopardize his re-election prospects.
- ✳️ I'm now less pessimistic about prospects for the broader U.S.-China relationship, but we will soon see if the president turns his recent rhetoric into actions which promote engagement over containment.

HAS TRUMP RE-SET U.S.-CHINA RELATIONS?

Following his G-20 meeting with Xi Jinping, Donald Trump went well beyond the trade truce I had expected, as he downplayed the national security tensions between the U.S. and China while describing the bilateral relationship as one of “strategic partners.”

With that characterization of the relationship and his apparent decision to lift his administration’s recent ban on the sale of American technology to Huawei, Trump threw his national security team under the bus.

Returning to his transactional roots, Trump favored selling more goods to China over his advisers’ attempts to constrain the rise of that nation (and its leading telecom company). If the president sticks with this approach—which is not a sure thing—that would be positive for the future of the bilateral relationship and for the near-term health of Chinese consumer and corporate sentiment.

Partners rather than adversaries

In an article on our website last month, I wrote that “Far more than trade will be on the table when the two leaders next meet. . . In short, [Trump and Xi] will have to agree that rising competition between the two nations does not have to be a zero-sum game, and that it is cooperation and concessions, rather than confrontation, that will leave both sides better off.”

In his comments after meeting with Xi in Osaka, Trump seems to have opted for engagement over confrontation. When a reporter for *Caixin*, a Chinese financial magazine, asked if the two countries should view each other as strategic partners, competitors or enemies, Trump replied: “I think we’re going to be strategic partners. I think we can help each other.”

That was, for the moment, at least, a stark rejection of the more adversarial, “strategic competitor” approach that the president’s national security team has been advocating.

Trump’s perspective was evident in his comments on two contentious issues: Huawei, a world leader in 5G technology and in mobile phone sales; and the status of Chinese students in the U.S.

“We’re letting them sell to Huawei”

The Trump administration recently placed Huawei on an “entity list,” limiting the company’s ability to purchase U.S. technology. But at Saturday’s press conference, Trump said he would roll back that restriction.

“U.S. companies can sell their equipment to Huawei. I’m talking about equipment where there is no great national emergency problem with it. But the U.S. companies can sell their equipment. So we have a lot of great companies in Silicon Valley and based in different parts of the country, that make extremely complex equipment. We’re letting them sell to Huawei.”

The details of this decision are unclear, but Trump suggested that he may remove Huawei from the “entity list.” “We’re talking about that,” he said. “We have a meeting on that tomorrow or Tuesday.”

ANDY ROTHMAN lived and worked in China for more than 20 years, analyzing the country’s economic and political environment, before joining Matthews Asia in 2014. As Investment Strategist, he has a leading role in shaping and presenting the firm’s thoughts on how China should be viewed at the country, regional and global level.



Trump then raised the case of another Chinese telecom company which had been, briefly, sanctioned by his administration. “I took ZTE off, if you remember. I was the one; I did that. That was a personal deal. And then President Xi called me. And he asked me for a personal favor, which I considered to be very important. . . And they paid us a billion-two. \$1.2 billion.”

The president’s comments appear to undercut his administration’s earlier statements that Huawei presents a national security threat and should be denied access to American technology, and should also be blocked from selling 5G networking gear to U.S. allies.

“We want to have Chinese students come”

The director of the FBI recently suggested that many Chinese students in the U.S. are spies, and the State Department has made it more difficult for Chinese citizens to obtain student visas, but Trump took a different tack at his Osaka press conference. Apparently, Xi raised this issue with the president, who told reporters:

“Somebody was saying it was harder for a Chinese students to come in. And that’s something if it were—it [sic] somebody viewed it that way, I don’t. We want to have Chinese students come and use our great schools, our great universities. They’ve been great students and tremendous assets. But we did discuss it. It was brought up as a point, and I said that will be just like anybody else, just like any other nation.”

“A brilliant leader and a brilliant man”

Trump, who is often reluctant to praise those across the negotiating table, called Xi “a brilliant leader and a brilliant man.” Trump added, without explanation, that Xi is perhaps the greatest Chinese leader “in the last 200 years.”

In the same press conference, Trump described Xi as “strong” and “tough . . . but he’s good. . . I have a tremendous relationship with President Xi.”

Trade talks “right back on track”

In his G-20 press conference, Trump described the bilateral trade talks as “right back on track.” He didn’t lift the tariffs already in place on Chinese goods, but postponed additional tariffs he had threatened to levy.

Taking the same transactional approach as with Huawei, Trump told reporters, “China has agreed that, during the negotiation, they will begin purchasing large amounts of agricultural product from our great Farmers.”

Signaling, perhaps, a link in his mind between concluding a trade deal and his re-election prospects, the president said, “(But) in the end, the farmers are going to be the biggest beneficiary. But I’ve made up for the fact that China was, you know, targeting our farmers. . . The farmers could not be happier...”

The following day, in South Korea, Trump added another optimistic note about a trade deal:

“President Xi and I had a fantastic meeting. It was a great meeting. We get along. We also have a really, really good relationship. And he wants to see something happen and so would I. And I think there’s a really good chance of that happening.”

Cautiously optimistic

I remain optimistic about prospects for a trade deal in the near future, because Trump seems to recognize that a trade war with China would damage the U.S. economy and equity markets, and thus his re-election prospects.

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All signs are that Xi also continues to want to reach a deal. While tariffs are not a huge problem, as China is no longer an export-led economy, failure to conclude a deal would open up the risk that a full-blown trade war leads to restrictions on China's access to American tech, everything from semiconductors to research collaboration. That would be a setback to China's economic growth, which Xi wants to avoid.

The future beyond a trade deal is less clear, but after listening to Trump's weekend comments, I am less pessimistic than I was a week ago about prospects for the broader bilateral relationship. We will soon see if the president turns his recent rhetoric into actions which promote engagement over containment.

In the meantime, Trump's words are likely to be received positively by Chinese consumers and investors. Remember that real (inflation-adjusted) retail sales rose 6.4% in May, and the Shanghai Composite Index was up 19% during the first six months of the year. The business community, however, felt pressure from the tensions with the U.S., leading to weaker corporate investment and industrial output during the first five months of 2019. The June macro data will be out soon, while the impact of the Trump-Xi meeting will register over the coming months.

Regards,

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