

Flash Comment

Encouraging signs in the US-China trade conflict

Following the escalation of the US-China trade dispute on Friday, we have seen two signs that support the picture that it is part of negotiations to reach a deal rather than Trump taking China into a trade war. We thus still expect the endgame to be a deal between the US and China and that the situation will be resolved without a trade war.

First, over the weekend Trump *tweeted* that he and Xi Jinping would always be good friends and that a deal would be made on intellectual property. This was a clear softening after Trump escalated the situation by tripling the amount of Chinese imports that would be taxed at the border. China called Trump's bluff, though, and warned sharply that it would retaliate any measures from Trump and reminded him that China has an army of 1.4 billion consumers ready to fight a trade war - indicating that a consumer boycott of US goods could very well be the result if Trump does not back down, see *People's Daily*.

Second, Xi Jinping overnight promised a further opening and promised a reduction of tariffs on cars and other goods. He urged for 'dialogue rather than confrontation' and stated China would also enhance proposals to increase imports, reduce limits on ownership of foreign companies in a range of sectors and enhance the protection of intellectual property rights.

While these measures have been planned in China for some time, the pressure from US and EU is probably pushing China to implement this. China's vice-premier and economic architect Liu He at the World Economic Forum in Davos signalled that China would surprise the world by the speed at which it would open up further. Reform and opening is high on the agenda in the year of the 40th anniversary of the 'Reform and Opening' policy started in late 1978 by China's new leader at the time, Deng Xiaoping.

In his speech Xi Jinping also continued the path laid out at last year's World Economic Forum in Davos when he warned of protectionism and spoke in favour of free trade and global cooperation. Xi Jinping said that 'the Cold War mentality and zero-sum game are increasingly obsolete' and 'only by adhering to peaceful development and working together can we truly achieve win-win results'. The concept of win-win cooperation is repeated again and again by Chinese leaders and a strong part of their mind set.

No doubt the world will be watching China closely. However, we are cautiously optimistic that China will follow through on its words, as reforms have moved to the top of the agenda. Xi Jinping has a strengthened mandate and more power to push through the reforms he has outlined for some years.

We will likely still see ebbs and flows in the trade dispute but we see the recent developments as a positive sign that both countries want to find a solution and strike a deal rather than go into a trade war.

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