

## LOOKING FORWARD WITH A BACKWARD GLANCE

*A PRODUCT OF AG MASTERS MARKETING GROUP*

### U.S. / China Trade War Update

#### **Pence, Xi Showdown Crushes Hopes For Trade War De-escalation**

by Tyler Durden

Sat, 11/17/2018 - 16:55

For two consecutive days US stocks surged on renewed hopes that trade tensions between the US and China may be thawing ahead of the upcoming G-20 meeting between presidents Trump and Xi, when first an FT suggested that USTR Lighthizer had said no further tariff raises would be forthcoming (the report has since been denied), and subsequently when Trump himself told reporters on Friday he may not impose more tariffs after China sent the United States a list of measures it was willing to take to resolve trade tensions.

Unfortunately for markets, and bulls such as JPM's Marko Kolanovic who saw last week's traces of trade de-escalation as a reason to [quadruple-down on his recommendation to buy stocks](#), **any hopes of an imminent trade war end or even ceasefire came crashing down overnight when Vice President Mike Pence traded sharp barbs with Chinese leader Xi Jinping in back-to-back speeches at the Asia Pacific Economic Co-operation (APEC) summit in Papua New Guinea**, which confirmed yet again that neither country is willing to compromise in the escalating trade war.

Xi received applause Saturday when he told the Asia-Pacific Economic Cooperation summit in Papua New Guinea that implementing tariffs and breaking up supply chains was “short-sighted” and “doomed to failure.” According to [Bloomberg](#), Xi called for a stronger World Trade Organization and defended his signature Belt-and-Road Initiative, saying it’s “**not a trap as some people have labeled it.**”

Speaking moments later, vice president Pence - who in recent weeks has been [pushing an aggressive anti-China agenda](#) - **threw down the gauntlet to China on trade and security in the region**, saying the US will not back down from its trade dispute with China, and might even double its tariffs, unless Beijing bows to U.S. demands: “we have taken decisive action to address our imbalance with China,” adding that “we put tariffs on \$250 billion in Chinese goods, and we could more than double that number.”

“We’re in a very strong position,” Pence said when asked whether there was a deadline to end the trade war. “The American people know that we have to do something to reset this relationship with China economically. **So, I don’t think there’s a timetable.**”

Pence told delegates the U.S. offers countries in the region “a better option” for economic and diplomatic relations than Beijing’s heavy-handed approach.

He also took aim at China’s regional expansion ambitions to expand land and sea links between Asia, Africa and Europe with billions of dollars in infrastructure investment... which are funded by neighboring countries forced to raise debt in China, becoming China's debtor slaves in the process. In a pun on words on China's "One Belt, One Road" initiative, Pence warned against taking Chinese loans, saying the U.S. “doesn’t drown our partners in a sea of debt” nor offer “**a constricting belt or a one-way road.**”

Technically he is right: the World Bank does that, and then the US-led IMF comes in to "bail them out" at terms that are preferential only to the creditors (see Greece, or any other nation "saved" by the IMF).

“China has taken advantage of the United States for many years. Those days are over,” he told delegates gathered on a cruise liner docked in Port Moresby’s Fairfax Harbour.

And then came the punchline: “**The United States, though, will not change course until China changes its ways.**” Later, Pence told reporters he was “very hopeful” the U.S. and China could reach a deal, but “things have to change” for that to happen.

Tensions between the two nations are likely to deteriorate even more after the US took aim at China's territorial ambitions. While not referring directly to Chinese claims over various disputed waters in the region, Pence said the United States would work to help protect maritime rights and said that the US seeks to establish a military base in Papua New Guinea, aka China's back yard.

**“We will continue to fly and sail where ever international law allows and our interests demand. Harassment will only strengthen our resolve.”**

Meanwhile, Xi gave no indication of giving in on any U.S. demands, including an end to technology transfer, support for state-run enterprises, and giving up on its Made in China 2025 plan to lead the world in key industries. He said intellectual property rights are important to protect innovation but they shouldn’t widen the digital gap between countries.

In a further provocation to the Trump Admin, Xi also made a veiled reference to a new grouping known as “the Quad” that aims to counter China’s influence in the Asia-Pacific. Consisting of the U.S., Japan, India and Australia, the group met in Singapore for the third time this week to discuss ways to cooperate. “Attempts to form exclusive blocs or impose one’s will on others should be rejected,” Xi said. “**History has shown that confrontation, whether in the form of a cold war, a hot war or a trade war, will produce no winners.**”

Finally, Xi said talks would only work if both sides treated each other with respect: “If countries can only treat each other equally and understand each other,” he said, “there will be no issues that can’t be settled by negotiation.”

The only problem is that there has been virtually no mutual response, no compromises and no true negotiation.

Pence’s Saturday warning contrasted with remarks made by Trump on Friday, which were interpreted by the market as a tentative olive branch to China and a step to defuse tensions. Trump, who did not attend the APEC meeting and is due to meet Chinese President Xi Jinping at a G-20 summit in Argentina - told reporters Friday that the Chinese response to U.S. trade demands was largely complete but was missing four or five big issues. Those comments helped U.S. stocks erase losses, and sent the Dow Jones surging 200 points higher.

The bottom line: since there was no hint of a compromise from either Pence or Xi - in fact, quite the opposite as both sides retrench - any hopes for a thaw in relations were summarily crushed. And, as [Reuters warns](#), Pence's stark warnings will "be unwelcome news to financial markets which had hoped for a thaw in the Sino-U.S. dispute and perhaps even some sort of deal at a G20 meeting later this month in Argentina."