

Height Commentary

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Trade

Why Pence's Speech Doesn't Change Our Expectations For Trump-Xi Meeting

THE TAKEAWAY

Vice President Mike Pence's aggressive [speech](#) at the Asia-Pacific Economic Cooperation summit does not change our view of the upcoming Trump-Xi meeting, specifically that the best possible outcome is a temporary pause in new tariffs rather than a grand bargain that reverses all trade actions. We continue to expect that the closest comparison to a Trump-Xi meeting was Trump's deal with European Commission President Jean-Claude Juncker, which included a pause on US auto tariffs. The Trump administration undid this pause by revisiting auto tariff threats against the EU, and we expect a similar pattern will play out with the Chinese: a pause in new tariffs will only be temporary before Trump returns to threatening new tariffs at some point. We believe that Pence's speech was a pointed attempt to demonstrate to the Chinese that the White House, despite recent optimistic rhetoric, will not roll over in negotiations. In short, we view this latest spat as a reflection of the overall tension in the negotiating process as opposed to an indication that the process is dead in the water.

Pence has played the role of enforcer before, taking a markedly aggressive stance during a speech at the Hudson Institute in early October. Pence's Hudson institute [speech](#) took a remarkably aggressive stance on a wide range of US-China disputes, including multiple non-trade related matters. It is worth noting that Pence's Hudson Institute speech predated the first [suggestion](#) of a Trump-Xi meeting by roughly a week; the process for opening a path to negotiation was almost certainly underway as Pence delivered his remarks. This suggests that Pence, rather than reflecting the Trump administration's unwavering opposition to negotiation, was instead used to reiterate hard-line talking points in an effort to keep up pressure on the Chinese.

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The Chinese response to this pressure places additional importance on the Trump-Xi meeting at the G20. Specifically, the Chinese reportedly [canceled](#) a potential pre-G20 minister level meeting between US Trade Representative Robert Lighthizer and Vice Premier Liu He, moving all meetings to Buenos Aires and raising expectations for more substantive discussions between the two nations. Having the chief trade negotiator for each nation present at this gathering opens the potential for a more meaningful discussion around the recent Chinese offer of limited concessions, and we view this change as a sign that both sides see potential for movement at the G20 meeting.

Ultimately, however, Trump will be the one to decide if a deal with Xi is enough to warrant a pause in new tariffs. Much like in the meeting with Juncker, Trump will be the one who ultimately decides if a "deal" is good enough to warrant a pause in new tariffs. We believe that recent market movements and politically damaging headlines leave Trump looking for a win, increasing the possibility he will reach some consensus with Xi. This is still far from guaranteed, but we continue to see an overall positive trend in the rhetoric from both sides, and we do not think that Pence's speech upset this trend so significantly as to block any deal.

However, a deal is still only a temporary fix at best, in our view. Even with the addition of trade negotiators, we do not expect the G20 meeting will result in a grand bargain-style deal to end the trade war. We still expect that the most positive outcome possible is a pause on new tariffs - both the \$267 billion in Chinese imports that are not yet tariffed and the January 1 increase in tariff amount from 10% to 25% on the largest block of \$200 billion in current tariff targets. In the best-case scenario, we expect that Trump and Xi will announce a pause but offer no binding concessions or commitments to prevent any future escalation, leaving Trump (or more accurately, Lighthizer) free to ramp up pressure in the coming months if talks with the Chinese do not advance sufficiently.

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