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Dear Policy+ Subscribers,

Yesterday morning, we hosted a Policy+ exclusive video conference with [Meredith Sumpter](#), Head of Research Strategy and Operations at Eurasia Group. As part of our video conference series, the briefing with Meredith was our second endeavor (Samm Sacks of New America was our [first video conference](#) guest speaker) to bring the best insights and thought-leadership from around the world to your doorstep. For those of you who could not make it to the event, please see some of the highlights below:

How did the bilateral trade talks break down?

- The US side was surprised to realize that they hadn't made as much progress in the negotiations as had previously been expressed. It has been said that US negotiators felt they were about 85% of the way there prior to the break down but estimates now suggest that negotiations on many chapters of the agreement have only made 50% progress.
- Trump was ill-advised that placing Huawei on the entity list would receive the same reaction from China as when ZTE was put on the entity list last year. However, he crossed a line with Huawei as it is seen as an emblem of indigenous innovation by many in Beijing.
- The surprise soon turned into a more aggressive stance towards China, as demonstrated by the increase of tariffs from 10% to 25% on US \$200 billion worth of Chinese goods on May 9, 2019.

Why is a deal unlikely reached in 2019?



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- **No urgency:** neither side has set a deadline for when an agreement should be reached. From the DC perspective, a designated time frame can lead to an ineffective deal. Therefore, the US negotiators prefer for talks to progress at "a more natural" pace. On the other hand, there is also less urgency on Beijing's side, as "China is not afraid of a trade war" (a core message from the *White Paper* issued by the State Council).
- **Huawei as a sticking point:** the G20 meeting did nothing to resolve fundamental issues such as intellectual property and structural reforms. More importantly, the US has yet to find a sustainable solution for dealing with Huawei. A senior-level interagency meeting on Huawei was supposed to take place last week, but it appears that this did not happen. Trump sees Huawei purely as leverage, while others in the administration hold a more hardline view. For Beijing, Huawei is also a key to negotiations as the US recent actions suggest that the US is not genuine about wanting to strike a deal and are seen as attempts to thwart China's technological rise.
- **Lack of coordination:** in our P+ report on the DC Outreach, we shared with you that DC lacks a clear and well-coordinated strategy towards China. The speaker further suggested that Trump's cabinet is a "team of rivals" that are frequently put in front of Trump to argue with each other about how to approach China. This means that the old-fashioned policy-making process (i.e., bureaucratic bargaining + inter-agency collaboration and recommendations) does not resonate with Trump.

Key numbers on future outlooks

- The US-China trade talks are likely to extend through this year and even potentially through the current administration.
- Eurasia Group predicts that there is a 45% probability of a deal being reached in 2019; a 70% chance that the tariffs imposed by the US side will hold or even escalate this year.
- The next round of US retaliatory tariffs of 10% to 25% could still be rolled out in five to ten billion increments.



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Advice for Government Affairs/Strategy Professionals

- Get your voice in the boardroom and participate in the China strategy-making process
- Double-down on communications with your colleagues in the headquarters and stakeholders in both China and the US
- Address your commitment to do good business in China and tell a story about how your business is benefiting China and its people

That's all for today! Please stay tuned for upcoming Policy+ exclusive briefings. Our annual White Paper Delivery Meetings are underway--if you have particular ministries/agencies you would like to meet with, please write back and let us know. As always, if you have comments and questions about P+, simply reply to this email.

Best,

AmCham China Government Affairs and Policy Team



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