

‘Bringing Down the Hammer’ on China Trade Negotiations

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Huawei CFO Meng Wanzhou is out on bail in Vancouver while she fights an extradition request to the United States. This, as President Donald Trump suggested this week that he may intervene in efforts to prosecute her, if he thinks it will give the U.S. an advantage as it tackles trade talks with China.

There are concerns about the President’s comments to [Reuters](#), not only because it suggests he is not aligned with other administration officials who have said that the request for her extradition was a legal issue, not a political one. But it also leaves a lot of U.S. business executives wondering how this could impact them.

Private sector expert, Dr. Sam Natapoff believes that Meng’s arrest not only complicates current efforts by the U.S. and China to re-negotiate trade relations, but he has also said that if the current trade war ‘truce’ fails, Trump will have to ‘bring down the hammer’ to make good on his election promise of fighting unfair trade agreements with China.

(What do you think? Don’t forget to share your point of view at the end of the column...)

The Cipher Brief: You've said that if the current trade war truce between the U.S. and China fails, that President Trump will be forced to 'bring the hammer down on China'. Can you explain what that means and what it might look like?

Natapoff: At their dinner, President Xi and President Trump agreed to a cease fire and a 90-day pause in the tariffs. If no agreement is reached in 90 days, tariffs from the United States could rise 25% from the current 10% on 200 billion dollars worth of Chinese manufactured goods. That's going to put tremendous pressure on the Chinese economy, which is under considerable pressure from its own debt-related status right now. So that's what I really think putting the economic hammer down means.

The Cipher Brief: What's at stake for China right now? Are they really at the point of bankruptcy?

Natapoff: It's very hard to know, precisely. What I would say, is that the banking sector in China has borrowed a great deal of money for very aggressive economic expansion programs. At some point, those programs will need to repay the money that was laid out for it, and they have made a series of poor investments that will not be repaid at all. One of President Xi's key objectives when coming into office was to deleverage the Chinese economy because he thought it posed a strategic economic threat to the future of China. As a result of this U.S. – China trade war, Xi has been unable to prosecute that plan and he has had to scale back his efforts in this area. That's one of the key reasons why the U.S. – China trade issue has been so important for China.

The Cipher Brief: How do you see that developing over the near term, both best case and worst case scenario?

Natapoff: Best case scenario – which I think is very unlikely – is that the United States and China come to a trade agreement that's equitable to both sides. I don't think that's ever happened before. So, I think the chances of that are very low. Worst case scenario is that on the trade side, no agreement is reached in 90 days, President Trump does what he said he would do by raising those tariffs. President Xi will retaliate and trade wars have a way of having serious, structural economic consequences. It will affect confidence both in trade, but more importantly in financial markets. We have seen tremendous fluctuation in financial markets as a result of this. This isn't a small issue. This is the world's largest economy going into a trade war with the world's second largest economy. And we've seen this before. In the 1980s, United States and Japan also had trade issues which they could not find any easy way to resolve. The world's two largest economies. That being

said, the United States and Japan were able to find a mutually acceptable solution where the Japanese imposed voluntary export restraints on their automobile industry in their exports to the United States. They were able to do that, I believe, because the Japanese and the American Government had a history of economic and military cooperation going back 40 years. The United States and China do not have that.

The Cipher Brief: What should we be thinking about from your perspective that we haven't talked about already?

Natapoff: That the U.S. – China trade war is not simply a trade war. It is a competition between two countries, one a dominant power, one an ascending power, in multiple areas. In the areas of science, military, economics, culture, and soft power. And both sides, I should say both presidents, and both governments, are being pressed by domestic political pressures on the home front, forcing both of them either to push for a public victory, or wishing to avoid a public surrender.

The Cipher Brief: For example, what does the latest development with Huawei mean for Western executives who are going to be traveling there next week?

Natapoff: As a result of Sabrina Meng being arrested ... Sorry, being held. She is the chief financial officer of Huawei, and the daughter of Ren Zhengfei, the CEO of Huawei. As a result of that, the Chinese Foreign Minister of Foreign Affairs called the Canadian Ambassador to China into his office and said if she were not immediately released, there would be severe consequences. Those are the words he used on Tuesday. Earlier today, in China, Michael Kovrig, the former first secretary at Canada's embassy in Beijing from 2014 to 2016 was taken into custody. This is a clear message from the Chinese government to the Canadian government regarding the Huawei issue. It was specifically targeted at Canada and not at the United States, because they do not wish to mix the two. Secondly, in a more strategic sense, the South China Sea, in this economic confrontation, is rapidly becoming as strategically important as the Dardanelles were in World War I. One third of all maritime trade on Earth goes through the South China Sea. It is accurate to say that the Chinese government and the U.S. government dispute authority in those waters.

See also, '[Avoiding Fire and Fury with North Korea](#)', by Ambassador Joseph DeTrani...

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Natapoff is the president of Empire Global Ventures in NYC, Natapoff has worked at the U.S. Department of Commerce where he wrote speeches for President Clinton, at the European Central Bank, and the Bundesbank, where he also wrote speeches for both banks' leaders. He is a member of the Board of Directors of the United Nations Development Corporation. Learn more about The Cipher Brief's Network [here](#).